

TARIFF AND TRADE PROPOSALS

HEARINGS
BEFORE THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
NINETY-FIRST CONGRESS
SECOND SESSION
ON
TARIFF AND TRADE PROPOSALS

MAY 11, 12, 13, 14, 18, 19, 20, 21, 22,
JUNE 1, 2, 3, 4, 5, 8, 9, 10, 11, 12, 15,
16, 17, AND 25, 1970

Part 11 of 16 Parts
(June 9, 1970)

Printed for the use of the Committee on Ways and Means



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**TABLE SHOWING CONTENTS OF THESE HEARINGS BY DATES,
SUBJECTS, VOLUME NUMBERS, AND PAGE NUMBERS**

Date	Subject	Volume number	Pages
<i>1970</i>			
May 11	Government officials-----	1	1-297
May 12	-----do-----	2	299-556
May 13	-----do-----	2	557-643
May 14	-----do-----	3	645-737
May 18	General testimony-----	3	739-1000
May 19	-----do-----	4	1001-1210
May 20	Textiles and apparels-----	5	1211-1500
May 21	-----do-----	5	1501-1615
May 22	General testimony-----	6	1617-1748
June 1	Iron, steel, brass, copper, and related products--	6	1749-1959
June 2	Footwear (leather and rubber) and related products.	7	1961-2177
June 3	Oil, gas, and coal-----	8	2179-2395
June 4	DISC, oil, refund of duties on exported ar- ticles; machinery and machine tools.	9	2397-2651
June 5	State agencies, scissors and shears, toys and novelties, umbrellas, flowers, alcoholic beverages, glue, candles, sporting arms, tobacco, general testimony.	10	2653-2825
June 8	Electronics, heavy electrical equipment, item 807.	10	2827-3049
June 9	General testimony, fur, item 807, hardwood--	11	3051-3344
June 10	Chemicals, ASP-----	12	3345-3640
June 11	Textiles, meat, bearings and chains, industrial fasteners, aluminum and other metals, gen- eral testimony.	13	3641-3833
June 12	Aircraft, bicycles, pins and fasteners, mush- rooms, seafoods, coffee.	14	3835-3969
June 15	Stone, glass, clay, ceramic tile, cement, marble, granite.	14	3971-4155
June 16	Farm products, milk and milk products, soy- beans, honey, molasses, candy, footwear, textiles, apparel, general testimony.	15	4157-4274
June 17	Farm and citrus products, footwear, textiles, apparel, tea, general testimony.	15	4275-4416
June 25	Government officials-----	16	4417-4651

CONTENTS

SUBJECT HEADINGS

	<i>Date</i>
Aircraft	June 12.
Alcoholic beverages.....	June 5.
Aluminum	June 11.
American selling price.....	June 10.
Bearings and chains.....	June 11.
Bicycles	June 12.
Brass	June 1.
Candles	June 5.
Candy	June 16.
Cement	June 15.
Ceramic tile.....	June 15.
Chemicals	June 10.
Clay	June 15.
Coal	June 3.
Coffee	June 12.
Copper	June 1.
Domestic International Sales Corp.....	June 4.
Electrical equipment.....	June 8.
Electronics	June 8.
Exported articles, refund of duties.....	June 4.
Farm products.....	June 12, 16, 17.
Fish	June 12.
Flowers	June 5.
Footwear (leather and rubber) and related products.....	June 2, 16, 17.
Fur	June 9.
Gas	June 3.
General testimony	May 18, 19, 22, June 5, 9, 11, 16, 17.
Glass	June 15.
Glue	June 5.
Government officials.....	May 11, 12, 13, 14, June 25.
Granite	June 15.
Hardwood	June 9.
Honey	June 16.
Industrial fasteners.....	June 11.
Iron	June 1.
Item 807.....	June 8, 9.
Machinery and machine tools.....	June 4.
Marble	June 15.
Meat	June 11.
Milk and milk products.....	June 16.
Molasses	June 16.
Novelties	June 5.
Oil	June 3, 4.
Pins and fasteners.....	June 12.
Scissors and shears.....	June 5.
Soybean.....	June 16.
Sporting arms.....	June 5.
State agencies.....	June 5.
Steel.....	June 1.
Stone.....	June 15.
Tea.....	June 17.
Textiles and apparels.....	May 20, June 11, 16, 17.
Tobacco.....	June 5.
Toys.....	June 5.
Umbrellas.....	June 5.
Zinc.....	June 15.

BACKGROUND MATERIAL

	Page
Letter from the President to Chairman Mills, dated May 11, 1970-----	65
Press releases:	
Dated Thursday, April 16, 1970, outlining future schedule of the Com-	
mittee on Ways and Means-----	1
Dated Monday, May 4, 1970, announcing public hearings on tariff and	
trade proposals-----	2
Proposed Trade Act of 1969, committee print-----	5
Draft bill (H.R. 14870, introduced by Chairman Mills and Congressman	
John W. Byrnes of Wisconsin on November 19, 1969, at the request	
of the administration)-----	15
Message of the President-----	8
Section-by-section analysis-----	20
Trade Expansion Act of 1962, as amended-----	30

ORAL STATEMENTS BY GOVERNMENT OFFICIALS

Agriculture, Department of: Hardin, Hon. Clifford M., Secretary-----	626
Commerce, Department of:	
Stans, Hon. Maurice H., Secretary-----	299, 4417
Abbuhl, Forrest, Director, Trade and Commercial Policy Division--	299, 4417
Bodner, Seth, Special Assistant to Deputy Assistant Secretary for	
Resources-----	299, 4417
Butler, Michael F., Assistant General Counsel, Domestic and Interna-	
tion Business-----	299, 4417
Fox, Lawrence, Deputy Assistant Secretary for International Trade	
Policy-----	479
Johnson, Chadwick, Japan Desk Officer-----	4417
Nehmer, Stanley, Deputy Assistant Secretary for Resources-----	482, 4417
Labor, Department of:	
Shultz, Hon. George P., Secretary-----	589
Blackman, Herbert N., Deputy Assistant Secretary for Trade and	
Adjustment Policy-----	589
Hildebrand, Hon. George H., Deputy Under Secretary-----	589
State, Department of:	
Rogers, Hon. William P., Secretary-----	557
Trezise, Philip H., Assistant Secretary for Economic Affairs-----	570
Treasury, Department of:	
Kennedy, Hon. David M., Secretary-----	499
Nolan, John, Acting Assistant Secretary for Tax Policy-----	499
Patrick, Robert J., Associate Tax Legislative Counsel (International)	499
Petty, John R., Assistant Secretary for International Affairs-----	532
Rossides, Eugene T., Assistant Secretary for Enforcement and Opera-	
tions-----	521
Volcker, Paul A., Under Secretary for Monetary Affairs-----	524
Trade Negotiations, Office of the Special Representative for:	
Gilbert, Hon. Carl J., Special Representative for Trade Negotia-	
tions-----	67, 645
Garland, Allen H., chairman, Trade Staff Committee-----	67, 645
Gates, Theodore R., Assistant Special Representative for Industry	
and Labor-----	67, 645
Pomeranz, Morton, acting general counsel, and secretary, Trade Exec-	
utive Committee-----	67, 645

ORAL STATEMENTS BY PUBLIC WITNESSES

Abbitt, Hon. Watkins M., a Representative in Congress from the State of	
Virginia-----	4283
Ackley, Hon Gardner, on behalf of the American Retail Federation-----	921
Aerospace Industries Association of America, Inc.:	
Harr, Karl G., Jr., president-----	3835
Marshall, Robert B., member, International Committee-----	3847
Stoffel, Albert W., chairman, International Committee-Trade Policy	
Task Group-----	3843
Alevra, Peter, Pulp & Paper Machinery Association-----	2486
Allen, Edward A., Jr., on behalf of the Stainless Steel Flatware Manu-	
facturers Association-----	1810
Amalgamated Clothing Workers of America, Jacob S. Potofsky, president--	1267

VII

	Page
Amalgamated Meat Cutters & Butcher Workmen of North America :	
Feinglass, Abe, international vice president (statement delivered by Mr. Wishart).....	2180
Wishart, James, research director.....	2130
Fur and Leather Department :	
Foner, Henry.....	3157
Shapiro, Ralph, counsel.....	3154
American Apparel Manufacturers Association :	
Brawley, H. W.....	1373
Flanagan, William S., board of directors and executive committee.....	1373
Meredith, Ellis E., executive vice president.....	1373
Priestland, Carl, economic consultant.....	1373
American Association of Port Authorities, Clifford B. O'Hara, chairman, committee XI.....	975
American Association of Woolen Importers, Inc. :	
Bissinger, Fred, Jr., president.....	1490
Daniels, Michael P., counsel.....	1490
American Butter Institute, Robert F. Anderson, executive secretary.....	4178
American Farm Bureau Federation :	
McLain, Marvin, director, legislative department.....	1620
Sherwin, Dale, assistant director, legislative department.....	1620
Shuman, Charles B., president.....	1620
American Federation of Labor and Congress of Industrial Organizations :	
Biemiller, Andrew J., director, department of legislation.....	1001
Goldfinger, Nathaniel, director, department of research.....	1022
American Footwear Manufacturers Association :	
Griffin, W. L. Hadley, chairman, board of directors.....	1983
Olson, Iver M., vice president.....	1983
Shannon, Thomas F., counsel.....	2024
Sheskey, William, chairman, national affairs committee.....	2016
American Fur Merchants' Association, Inc. :	
Dreisin, Eugene, cochairman, foreign trade committee.....	3094
Hessel, B. H., cochairman, foreign trade committee.....	3096
Sharp, James R., Washington counsel.....	3094
American Fur Merchants Council, Eugene Dreisin, former president.....	3159
American Gas Association, Herbert D. Clay, chairman, government relations committee.....	2315
American Importers Association :	
Cutler, Ralph H., Jr., chairman, trade policy committee.....	933
O'Brien, Gerald, executive vice president.....	933
Footwear group :	
Beispiel, Paul.....	2119
Davis, Jeff.....	2103
Hemmendinger, Noel, counsel.....	2103
Organic chemicals group :	
Hochschwender, Dr. Karl A., chairman.....	3508
McCauley, Alfred R., counsel.....	3508
Stobaugh, Robert B.....	3509
Textile and apparel group :	
Daniels, Michael P., general counsel.....	1324
American Iron & Steel Institute :	
Roche, John P., president.....	1753
Stinson, George A., chairman.....	1753
American Institute for Imported Steel, Inc. :	
Graubard, Seymour, counsel.....	1796
Greenberg, Michael H., associate counsel.....	1796
American Loudspeaker Manufacturers Association, Herbert Rowe (chairman, parts division and distributor products division, Electronic Industries Association).....	2881
American Mexican Association :	
Blum, William.....	3200
Bramble, H. P.....	3218
Courtney, Gen. J. Cal, president.....	3200
Nathan, Robert R.....	3202

VIII

American National Cattlemen's Association, C. W. McMillan, executive vice president.....	Page 3687
American Petroleum Institute, panel on behalf of:	
Dunlop, Robert G., chairman of the board, Sun Oil Co.....	2239
Ikard, Hon. Frank N., president.....	2202
Wright, Myron A., chairman of the board, Humble Oil & Refining Co., also in behalf of Standard Oil Co. of New Jersey.....	2210
American Pipe Fittings Association:	
Goodridge, Raymond H., secretary-treasurer.....	1905
Vilsack, Robert M.....	1905
Wilcox, William F.....	1908
American Retail Federation:	
Ackley, Hon. Gardner.....	921
Keeney, Eugene, president.....	921
American Saint Gobain Corp., J. Clifford Knochel, president and chief executive officer.....	3976
American Soybean Association, D. Leslie Tindal, president.....	4222
American Sprocket Chain Manufacturers Association, Edward M. Rhodes, special consultant.....	3745
American Textile Manufacturers Institute, panel of:	
Dent, Frederick B., chairman, international trade committee.....	1222
Jackson, Robert C., executive vice president.....	1217
McCulloch, Donald F., president.....	1217
Booth, Robert, chairman, Northern Textile Assn.....	1240
Darman, Morton H., chairman of the board, National Association of Wool Manufacturers.....	1243
Robie, Merle C., chairman, executive committee, Cordage Institute.....	1264
Anderson, Hon. John B., a Representative in Congress from the State of Illinois.....	4290
Anderson, Robert F., executive secretary:	
American Butter Institute.....	4178
National Cheese Institute, Inc.....	4178
Anderson, Robert W., on behalf of Tanners Council of America, Inc.....	2023
Anti-Friction Bearing Manufacturers Association, William E. Decaulp, chairman, foreign trade committee.....	3740
Apparel Industries Inter-Association Committee:	
Ferster, Herbert F., counsel, Clothing Manufacturers Association of the U.S.A.....	1517
Korzenik, Sidney S., counsel.....	1517
McEvoy, James, research director, National Knitted Outerwear Association.....	1517
Appleman, Leonard, immediate past president, Green Olive Trade Association.....	4347
Arcuri, John, counsel, Mass Retailing Institute.....	2671
Arcuri, Andrew, International Union of Dolls, Toys, Playthings, Novelties and Allied Products of the United States and Canada.....	2769
Ashley, James M., cochairman, board of trustees, Trade Relations Council of the United States, Inc.....	3649
Aspinall, Hon. Wayne N., a Representative in Congress from the State of Colorado.....	2397
Association on Japanese Textile Imports, Inc.:	
Ishikawa, Samuel, of counsel.....	1388
Masaoka, Mike M., Washington representative.....	1388
Atkins, Edward, executive vice president, Volume Footwear Retailers of America.....	2078
Atkind, Leon, chairman, Textile Importers Group of the Italy-America Chamber of Commerce.....	1649
Baldanzi, George, international president, United Textile Workers of America.....	1290
Barnard, Robert C., counsel:	
Synthetic Organic Chemical Manufacturers Association.....	3371
Dry Color Manufacturers Association.....	3371
Barnes, Delbert, tax counsel, Cummins Engine Co.....	2471
Bates, Victor, president, Bates Nitewear Co., Inc.....	1550
Beispiel, Paul, member, footwear group, American Importers Association.....	2119
Bennett, Hon. Charles E., a Representative in Congress from the State of Florida.....	3879

IX

Bent, Donn N., Meat Importers Association, on behalf of John E. Ward, chairman.....	Page 3696
Berncolors-Poughkeepsie, Inc., James W. Monks, president.....	3571
Bevil, Hon. Tom, a Representative in Congress from the State of Alabama.....	1512, 1749
Biaggi, Hon. Mario, a Representative in Congress from the State of New York.....	2654
Bicycle Manufacturers Association of America:	
Hannon, William M., chairman, Washington affairs committee.....	3850
Shannon, Thomas, counsel.....	3850
Biemiller, Andrew J., director, Department of Legislation, American Federation of Labor, Council of Industrial Organizations.....	1001
Bissinger, Fred:	
American Association of Woolen Importers, Inc. (president).....	1490
Synthetic Organic Chemical Manufacturers Association (senior vice president).....	3371
Blake, Peter, acting director, Division of Economic Development, New Jersey Department of Labor and Industry, on behalf of New Jersey Economic Development Council.....	2659
Blum, William, American Mexican Association.....	3200
Boland, Hon. Edward P., a Representative in Congress from the State of Massachusetts.....	4286
Boot & Shoe Workers Union, John E. Mara, general president.....	2066
Booth, Robert, chairman, Northern Textile Association.....	1240
Bradley, Gail, vice president, League of Women Voters of the United States.....	979
Bramble, H. P., American Mexican Association.....	3218
Brawley, H. W., on behalf of the American Apparel Manufacturers Association.....	1373
Brazilian-American Chamber of Commerce, Morris Rosoff, president.....	1686
British-American Chamber of Commerce:	
Farquharson, David N. G., executive secretary.....	1677
Lee, Derek A., president.....	1677
Pacy, David G., vice president.....	1677
Bronz, George, on behalf of the Tie Fabric Importers Association.....	1541
Broun, E. Fontaine, member, executive advisory committee, Man-Made Fiber Producers Association.....	1427
Brown, Phillip, on behalf of Rubber Manufacturers Association.....	2094
Broyhill, Hon. James T., a Representative in Congress from the State of North Carolina.....	1501
Brudno, Walter W., counsel, in behalf of Cummins Engine Co. and Kobe, Inc.....	2471
Bruno, Vincent J., director, World Trade Department, Commerce & Industry Association of New York.....	1208
Bryant, F. Leonard, chairman of the board of directors, Manufacturing Chemists Association.....	3490
Buchanan, Hon. John, a Representative in Congress from the State of Alabama.....	1812, 1905, 4025
Burch, Bob, vice chairman, import policy committee, Independent Petroleum Association of America, and also president, Rocky Mountain Oil & Gas Association.....	2299
Burton, Hon. Laurence J., a Representative in Congress from the State of Utah.....	2428
Busby, David, Washington, D.C.....	2573
Butler, George D., president, Electronic Industries Association.....	2827
Buzzard, John A., chairman, Import-Export Advisory Committee, National Confectioners Association.....	4232
Byrnes, Hon. John W., a Representative in Congress from the State of Wisconsin and a member of the Committee on Ways and Means, statement with reference to testimony of Nelson Stitt.....	1126, 3641
Bywater, William, vice president, International Union of Electrical, Radio & Machine Workers; also on behalf of International Association of Machinists & Aerospace Workers and the International Brotherhood of Electrical Workers.....	2903
California-Arizona Citrus League, Julian B. Heron, Jr., counsel.....	4360

Campbell, John, assistant general counsel, United Rubber, Cork, Linoleum & Plastic Workers of America.....	Page 2137
Campbell, William, chairman, footwear division, Rubber Manufacturers Association	2094
Cast Iron Soil Pipe Institute:	
Hendrickson, Jerome, executive vice president.....	1813
Hunt, Frederick D., foreign trade consultant.....	1813
Perry, J. Wiley, Jr., chairman, Import Study Committee.....	1813
Caterpillar Tractor Co.:	
Fender, James, Public Affairs Department.....	1202
Grant, Virgil V., vice president.....	1202
C-E Glass, Robert C. Hordis, president.....	3982
Cement Industry Antidumping Committee:	
Hiss, Donald, counsel.....	4089
Mundt, John C., vice chairman, advisory committee.....	4089
Ceramic Tile Manufacturers of the United States:	
Murchison, David M.....	4074
Steele, Robert W.....	4074
Chamber of Commerce of the United States:	
Field, John E.....	1048
Ostrander, F. Taylor, Jr.....	1050
Surrey, Walter Sterling, member, international group.....	1039
Vest, Kay, manager, international group.....	1039
Chattem Drug & Chemical Co. of Chattanooga, Tenn.:	
Colburn, Charles S., engineer.....	3617
Evans, Ray W., vice president.....	3591
Vansant, John M., Jr., counsel.....	3591
Chester, Howard P., executive secretary, Stone, Glass & Clay Coordinating Committee	4032
Chicago (Ill.) Board of Trade, Henry H. Wilson, president.....	4323
Christopher, William, on behalf of Manufacturing Chemists Association...	3506
Christopher, William F., chairman, Society of the Plastics Industry, International Committee.....	3322
Churchill, Robert, member, executive advisory committee, Man-Made Fiber Producers Association.....	1427
Citronbaum, Jack, executive vice president, Luggage & Leather Goods Manufacturers Association of America.....	2158
Clay, Herbert D.: chairman, Government Relations Committee, American Gas Association; president, National Fuel Gas Co.....	2315
Clayman, Jacob, administrative director, Industrial Union Department, AFL-CIO	1776
Cleveland, Hon. James C., a Representative in Congress from the State of New Hampshire.....	3345
Clothespin & Veneer Products Association, Myron Solter, counsel.....	3331
Coerper, Milo G., Washington counsel, German-American Chamber of Commerce	1672
Cohen, Samuel Harris, counsel, New York Local No. 1, International Leather Goods, Plastics & Novelties Workers Union.....	2143
Colburn, Charles S., engineer, Chattem Drug & Chemical Co. of Chattanooga, Tenn.....	3617
Coleman, Gerald R., vice president-executive secretary, United Hatters, Cap & Millinery Workers International Union.....	1317
Collins, George, assistant to the president, International Union of Electrical, Radio & Machine Workers; also on behalf of the International Association of Machinists & Aerospace Workers and the International Brotherhood of Electrical Workers.....	1776, 2903
Commerce & Industry Association of New York, Vincent J. Bruno, director, world trade department.....	1208
Committee for a National Trade Policy:	
Hight, John W., executive director.....	861
Steinberg, David J., secretary and chief economist.....	872
Taft, Hon. Charles P., chairman.....	852

Committee for Economic Development :	Page
Neal, Alfred C., president.....	914
Roth, Hon. William M., vice chairman, international economic studies, research and policy committee.....	914
Conte, Hon. Silvio O., a Representative in Congress from the State of Mas- sachusetts.....	2421
Cooper, Mitchell J., counsel, footwear division, Rubber Manufacturers Association.....	2094
Copper & Brass Fabricators Council, Inc. :	
Veltfort, Theodore E., managing director.....	1830
Wardell, Robert J., assistant managing director.....	1830
Cordage Institute, Merle C. Robie, chairman, executive committee.....	1264
Cornett, Hollan, international vice president, Stone & Allied Products Workers.....	4055
Cotton, Hon. Norris, a U.S. Senator from the State of New Hampshire.....	2184
Coughlin, Hon. R. Lawrence, a Representative in Congress from the State of Pennsylvania.....	1515, 4073
Council of State Chambers of Commerce :	
Koch, George S., chairman, Federal finance committee.....	2439
Rinta, Eugene F., executive director.....	2439
Courtney, Gen. J. Cal, president, American Mexican Association.....	3200
Crimmins, Mitchell T., counsel, Tenneco Chemicals, Inc.....	3565
Culleton, Edward J., president, Green Olive Trade Association.....	4347
Cummins Engine Co. :	
Barnes, Delbert, tax counsel.....	2471
Brudno, Walter W., counsel.....	2471
Curran, Jack, legislative director, Laborers' International Union of North America.....	4121
Cutler, Ralph H., Jr., chairman, trade policy committee, American Im- porters Association.....	933
Cycle Parts and Accessories Association, Carrol J. Warrell, chairman, tariff and customs committee.....	3858
Damon, E. M. Jr., executive secretary, Mushroom Processors Association...	3885
Danielian, N. R., president, International Economic Policy Association...	946
Daniels, Michael P., counsel :	
American Association of Woolen Importers, Inc.....	1490
American Importers Association, textile and apparel group.....	1324
Darman, Morton H., chairman of the board, National Association of Wool Manufacturers.....	1243
Daugherty, Philip, legislative representative, Industrial Union Depart- ment, AFL-CIO.....	1776
David Guttman, Inc., David Guttman (executive representative, Miss Erika, Inc.).....	1552
Davies, Richard, consulting economist, Synthetic Organic Chemical Manu- facturers Association.....	3476
Davis, Jeff, member, footwear group, American Importers Association.....	2103
Decaulp, William E., chairman, foreign trade committee, Anti-Friction Bearing Manufacturers Association.....	3746
Decker, James, president, Kobe, Inc.....	2481
Dent, Frederick B., chairman, international trade committee, American Textile Manufacturers Institute.....	1222
Dent, Hon. John H., a Representative in Congress from the State of Pennsylvania.....	3107
De Santis, Arthur A., executive secretary, Italy-America Chamber of Commerce.....	1647
(Greater) Detroit Chamber of Commerce, world affairs committee :	
Lyon, Lyman R., chairman-designate.....	1636
Toro, Carlos, vice chairman-designate.....	1636
Dirlam, Dr. Joel B., director, Institute for the Study of International Aspects of Competition, University of Rhode Island.....	1846
Discover America Travel Organizations, Inc., Sam N. Mercer, president....	2581
Distillery, Rectifying, Wine and Allied Workers International Union, AFL-CIO, Abraham S. Weiss, legislative representative.....	2801
Donehower, William L., Jr., chairman, executive committee, Rolled Zinc Manufacturers Association.....	4112

XII

Donohue, Hon. Harold D., a Representative in Congress from the State of Massachusetts	Page 2186, 4284
Dreisin, Eugene, cochairman, Foreign Trade Committee, American Fur Merchants' Association, Inc.	3094, 3159
Driver, William, president, Manufacturing Chemists Association	3490
Dunlop, Robert G. (chairman of the board, Sun Oil Co.) on behalf of the American Petroleum Institute	2239
Eagle Shoes of Philadelphia, Inc., Harry A. Kozac (president, Worldwide Shoes, Inc.)	2162
Eckles, William C., general manager, Pure Milk Products Cooperative	4217
Edmondson, Hon. Ed, a Representative in Congress from the State of Oklahoma	2403
EGge, George C., Jr., Synthetic Organic Chemical Manufactures Association	3364
Electronic Industries Association:	
Butler, George D., president	2787
McCauley, Alfred R., special counsel	2876
Price, Jay, director of public affairs	2827
Consumer products division:	
Hoffman, Charles N., chairman	2870
Wayman, Jack, staff vice president	2870
Parts and distributor products divisions:	
Rowe, Herbert, chairman, world trade committee	2881
Semiconductor division:	
Field, John C., economist	2987
Meagher, Edward, chairman	2987
New Delman, Mitchell J., attorney	2987
Emergency Committee for American Trade:	
Hazard, Ellison L.	740
Kendall, Donald M., chairman	739
McNeill, Robert L., executive vice chairman	836
Townsend, Lynn	750
Empire State Novelty Corp., Ira Weinberg, vice president and general manager	2779
E. Stanwyck Coil Co., Inc., Edward Stanwyck, president	3016
Evans, Ray W., vice president, Chattem Drug & Chemical Co., of Chattanooga, Tenn.	3591
Evans, S. W., member, Umbrella Frame Association of America	2796
Fairchild Camera & Instrument Corp.:	
Herzstein, Roberty, attorney	2995
Hinkelman, Thomas, vice president for corporate planning	2995
Fannin, Hon. Paul J., a U.S. Senator from the State of Arizona	4275
Farmers & Manufacturers Beet Sugar Association:	
O'Rourke, Dennis, counsel	4243
Reeve, Perc A., executive vice president	4243
Farquharson, David N. G., executive secretary, British-American Chamber of Commerce	1677
Farrington, James, president, National Association of Scissors & Shears Manufacturers	2748
Fecteau, George O., general president, United Shoe Workers of America	2061
Feinglass, Abe, international vice president, Amalgamated Meat Cutters & Butcher Workmen of North America (statement delivered by James Wishart)	2130
Fender, James, public affairs department, Caterpillar Tractor Co.	1202
Ferster, Herbert F., counsel, Clothing Manufacturers Association of the U.S.A.	1517
Field, John E., economist, on behalf of:	
Chamber of Commerce of the United States	1048
Electronic Industries Association, semiconductor division	2987
Fish, Hon. Hamilton, Jr., a Representative in Congress from the State of New York	3565
Findley, Hon. Paul, a Representative in Congress from the State of Illinois	3079
Finkel, Leonard E., president, Umbrella Frame Association of America	2790
Flanagan, William S., board of directors and executive committee, American Apparel Manufacturers Association	1373

XIII

Flat glass domestic producers, panel on behalf of :	
Hainsfurther, Robert M., vice president and general manager, glass division, PPG Industries, Inc.-----	Page 3986
Hordis, Robrt C., president, C-E Glass-----	3982
Knochel, J. Clifford, president, chief executive officer, American Saint Gobain Corp-----	3976
Stewart, Eugene L., special counsel-----	3988
Wingerter, Robert G., president, Libby-Owens-Ford Co-----	3972
Flood, Hon. Daniel J., a Representative in Congress from the State of Pennsylvania-----	1961
Florida Citrus Mutual :	
Rutledge, Robert W., executive vice president-----	4305
Underhill, William Amory, counsel-----	4305
Foner, Henry, on behalf of Fur & Leather Department of the Amalgamated Meat Cutters & Butcher Workmen of North America-----	3157
Friedel, Hon. Samuel N., a Representative in Congress from the State of Maryland-----	1508
Fuller, Robert P., member, government affairs committee, National Shoe-board Conference, Inc-----	2092
Furrier Joint Council of New York, Charles Hoff, assistant manager----	3154
GAF Corporation, chemical division, Alison Webb, director of marketing--	3568
Gaydcs, Hon. Joseph M., a Representative in Congress from the State of Pennsylvania-----	3151
Gehl's Guernsey Farms, Germantown, Wis., Robert G. Lewis-----	4212
German-American Chamber of Commerce, Milo G. Coerper, Washington counsel-----	1672
Gettys, Hon. Tom S., a Representative in Congress from the State of South Carolina-----	1211
Giamo, Hon. Robert N., a Representative in Congress from the State of Connecticut-----	2193
Glass, Irving R. president, Tanners Council of America, Inc-----	2005
Gleason, Donald H., chairman, international taxation subcommittee, National Association of Manufacturers-----	2438
Golden, David A., tariff and customs counsel, United States Potters Association-----	1188
Goldfinger, Nathaniel, director, Department of Research, AFL-CIO-----	1022
Goldman, Julius, marketing manager, industry sales, Tenneco Colors Division, Tenneco Chemicals, Inc-----	3565
Goldy, Daniel L., vice chairman, committee on commercial policy, United States Council of the International Chamber of Commerce-----	1170
Golson, Charles E., on behalf of International Engineering & Construction Industries Council-----	2481
Goodman, Richard J. member, international trade committee, National Grain & Feed Association-----	3734
Goodridge, Raymond H., secretary-treasurer, American Pipe Fittings Association-----	1905
Gordon, Douglas R., assistant executive director, Society of American Florists-----	2797
Gordon, Milton, International Union of Dolls, Toys, Playthings, Novelties and Allied Products of the United States and Canada-----	2768
Gorton, Harry, American Aniline Products, Inc-----	3575
Graham, Harry L., legislative representative, National Farmers Organization-----	987
Graham, James A., chairman, government and international affairs committee, Industrial Fasteners Institute-----	3757
Grant, Virgil V., vice president, Caterpillar Tractor Co-----	1202
Graubard, Seymour, counsel, American Institute for Imported Steel, Inc-----	1796
Greenberg, Michael H., associate counsel, American Institute for Imported Steel, Inc-----	1796
Green Olive Trade Association :	
Appleman, Leonard, immediate past president-----	4347
Culleton, Edward J., president-----	4347
Nolan, John E., Jr., counsel-----	4347
Pappas, John, Jr-----	4347
Schuman, Samuel, past president-----	4347

XIV

Griffin, W. L. Hadley, chairman, board of directors, American Footwear Manufacturers Association.....	Page 1983
Griffin, Hon. Charles H., a Representative in Congress from the State of Mississippi.....	4298
Gubser, Hon. Charles S., a Representative in Congress from the State of California.....	4159, 4360
Guttman, David, executive representative, Miss Erika, Inc.....	1552
Also testifying in behalf of:	
David Guttman, Inc.....	1552
Ricki Knits, Jr.....	1552
Hagerich, Don A., executive director, Marble Institute of America.....	4121
Hainsfurther, Robert M., vice president and general manager, glass division, PPG Industries, Inc.....	3986
Halpern, Hon. Seymour, a Representative in Congress from the State of New York.....	2190
Hannon, William M., chairman, Washington Affairs Committee, Bicycle Manufacturers Association of America.....	3850
Hansen, Hon. Orval, a Representative in Congress from the State of Idaho.....	3092
Harr, Karl G., Jr., president, Aerospace Industries Association of America, Inc.....	3835
Harsha, Hon. William H., a Representative in Congress from the State of Ohio.....	2653
Hathaway, Hon. William D., a Representative in Congress from the State of Maine.....	1504
Hazard, Ellison L., on behalf of the Emergency Committee for American Trade.....	749
Healy, Patrick B., secretary, National Milk Producers Federation.....	4181
Healey, William, staff counsel, Machinery & Allied Products Institute.....	2454
Hemingway, Stuart C., Jr., executive vice president, Stainless Steel Flatware Manufacturers Association.....	1804
Hemmendinger, Noel, counsel, footwear group, American Importers Association.....	2103
Henderson, Dave, executive secretary, National Board of Fur Farm Organizations.....	3051
Hendrickson, Jerome, executive vice president, Cast Iron Soil Pipe Institute.....	1813
Heeron, Julian B., Jr., counsl, California-Arizona Citrus League.....	4360
Herzstein, Robert, attorney, Fairchild Camera & Instrument Corp.....	2995
Hessel, B. H., chairman, foreign trade committee, American Fur Merchants' Association, Inc.....	3096
Hight, John W., executive director, Committee for a National Trade Policy.....	861
Higman, W. E., Washington, D.C.....	2596
Hinkelman, Thomas, vice president for corporate planning, Fairchild Camera & Instrument Corp.....	2995
Hiss, Donald, counsel, Cement Industry Antidumping Committee.....	4089
Hobbs, Claude, chairman, committee on foreign trade policy, National Electrical Manufacturers Association.....	2934
Hochschwender, Dr. Karl A., chairman, American Importers Association, Organic Chemical Group.....	3508
Hoff, Charles, assistant manager, Furrier Joint Council of New York.....	3154
Hoffman, Charles N., chairman, consumer products division, Electronic Industries Association.....	2870
Hordis, Robert C., president, C-E Glass.....	3982
Humble Oil & Refining Co., Myron A. Wright, chairman of the board.....	2210
Hunt, Frederick D.:	
Cast Iron Soil Pipe Institute, foreign trade consultant.....	1813
Office Machines International Institute, director.....	3314
Ikard, Hon. Frank N., president, American Petroleum Institute.....	2202
Imported Hardwood Products Association, Inc., James R. Sharp, counsel.....	3195
Independent Natural Gas Association of America, Hon. Walter E. Rogers, president.....	2307

	Page
Independent Petroleum Association of America, panel on behalf of:	
Jameson, Minor, executive vice president.....	2299
Burch, Bob, vice chairman, import policy committee, and also president, Rocky Mountain Oil & Gas Association.....	2286
Medders, Tom B., Jr., chairman, import policy committee.....	2295
Industrial Fasteners Institute:	
Graham, James A., chairman, government and international affairs committee.....	3757
Masterson, Frank, president.....	3811
Industrial Union Department, AFL-CIO:	
Clayman, Jacob, administrative director.....	1776
Daugherty, Philip, legislative representative.....	1776
Institute on U.S. Taxation of Foreign Income, Inc., Paul D. Seghers, president.....	2443
International Association of Machinists & Aerospace Workers:	
Bywater, William (vice president, International Union of Electrical Radio, & Machine Workers).....	2903
Collins, George (assistant to the president, International Union of Electrical, Radio, & Machine Workers).....	2903
International Brotherhood of Electrical Workers:	
Bywater, William (vice president, International Union of Electrical, Radio, & Machine Workers).....	2903
Collins, George (assistant to the president, International Union of Electrical, Radio, & Machine Workers).....	2903
International Brotherhood of Operative Potters, Lester Null, president.....	4041
International Chemical Workers Union, Frank D. Martino, Washington director.....	3575
International Economic Policy Association, N. R. Danielian, president.....	946
International Engineering & Construction Industries Council:	
Golson, Charles E.....	2481
Rutherford, H. L.....	2481
International Ladies' Garment Workers' Union, Lazare Teper, director of research, presenting statement on behalf of Louis Stulberg, president.....	1269
International Leather Goods, Plastics, & Novelties Workers Union:	
Cohen, Samuel Harris, counsel, New York Local No. 1.....	2143
Weiss, Abraham, legislative representative.....	2143
International Longshoremen's & Warehousemen's Union, Albert Lannon, Washington representative.....	1185
International Trade Club of Chicago, Lawrence C. McQuade, director.....	2559
International Union of Dolls, Toys, Playthings, Novelties & Allied Products of the United States and Canada:	
Arcuri, Andrew.....	2769
Gordon, Milton.....	2768
International Union of Electrical, Radio, & Machine Workers:	
Bywater, William, vice president.....	2903
Collins, George, assistant to the president.....	2903
International Union of Radio & Machine Workers of America, George Collins.....	1776
Ishikawa, Samuel, of counsel to Mike M. Masaoka, Washington representative, Association on Japanese Textile Imports, Inc.....	1388
Italy-America Chamber of Commerce:	
Atkind, Leon, chairman, Textile Importers Group.....	1649
De Santis, Arthur A., executive secretary.....	1647
Luft, Willard, cochairman, Footwear Importers Group.....	1647
Jackson, Robert C., executive vice president, American Textile Manufacturers Institute.....	1217
Jameson, Minor, executive vice president, Independent Petroleum Association of America.....	2286
Jenkins, George O., Jr., chairman, government affairs committee, National Shoeboard Conference, Inc.....	2092
Joelson, Mark, counsel, Pulp & Paper Machinery Association.....	2489
Johnson, Reuben L., director of legislative services, National Farmers Union.....	4237
Keeney, Eugene, president, American Retail Federation.....	921
Keith, Hon. Hastings, a Representative in Congress from the State of Massachusetts.....	1980
Kendall, Donald M., chairman, Emergency Committee for American Trade.....	739

	Page
Kessler, Bernard, president, Mass Retailing Institute.....	2673
Knochel, J. Clifford, president, chief executive officer, American Saint Gobain Corp.....	3976
Kobe, Inc.:	
Brudno, Walter W., counsel.....	2471
Decker, James, president, finance.....	2481
Koch, George S., chairman, Federal Finance Committee, Council of State Chambers of Commerce.....	2439
Korzenik, Sidney S., counsel, Apparel Industries Inter-Association Com- mittee.....	1517
Kozac, Harry A., president, Worldwide Shoes, Inc., also on behalf of Eagle Shoes of Philadelphia, Inc.....	2162
Kyros, Hon. Peter N., a Representative in Congress from the State of Maine.....	1982
Laborers' International Union of North America, Jack Curran, legislative director.....	4112
Langen, Hon. Odin, a Representative in Congress from the State of Minnesota.....	4165
Lannon, Albert, Washington representative, International Longshoremen's & Warehousemen's Union.....	1185
League of Women Voters of the United States, Gail Bradley, vice president.....	979
LeBlond, Daniel W., National Machine Tool Builders Association.....	2550
Lee, Derek A., president, British-American Chamber of Commerce.....	1677
Levy, Edward, executive director, National Handbag Association.....	2160
Lesnick, Edward, director of product planning, Wang Laboratories, Inc.....	3013
Lewis, Robert G.:	
Wisconsin Cheese Makers' Association.....	4212
Geehl's Guernsey Farms, Germantown, Wis.....	4212
Libbey-Owens Ford Co., Robert G. Wingarter, president.....	3972
Liberty Lobby, Warren S. Richardson, general counsel.....	1630
Lincoln, Donald O., trade, legislative and legal consultant, Maine Sardine Packers Association and Maine Sardine counsel.....	3892
Lobred, Leonard K.:	
National Cannery Association, director, international trade division.....	4327
U.S. National Fruit Export Council, secretary-treasurer.....	4367
Lovre, Hon. Harold O., Washington counsel, National Board of Fur Farm Organizations.....	3051
Luft, Williard, cochairman, Footwear Importers Group of the Italy-Amer- ica Chamber of Commerce.....	1647
Luggage & Leather Goods Manufacturers of America, Jack Citronbaum, executive vice president.....	2158
Lynn, Bruce N., president, National Cotton Council of America.....	1494
Lyon, Lyman R., chairman-designate, world affairs committee, Greater Detroit Chamber of Commerce.....	1636
MacArthur, Arthus R., Janesville, Wis.....	3172
Machinery & Allied Products Institute:	
Healey, William, staff counsel.....	2454
Stewart, Charles W., president.....	2454
Magdanz, Don F., executive secretary-treasurer, National Livestock Feeders Association.....	3704
Mahon, Hon. George H., a Representative in Congress from the State of Texas.....	2179
Mahoney, James, member, executive advisory committee, Man-Made Fiber Producers Association.....	1427
Maine Sardine Packers Association and Maine Sardine Council:	
Lincoln, Donald O., trade, legislative and legal consultant.....	3892
Reed, Richard E., executive secretary.....	3892
Warren, James L., chairman, legislative committee.....	3892
Man-Made Fiber Producers Association:	
Executive advisory committee:	
Broun, E. Fontaine.....	1427
Churchill, Robert.....	1427
Mahoney, James.....	1427
Stoll, Dr. Reiner.....	1427
Swank, Dr. Howard.....	1427
Ramsey, Claude, chairman of the board.....	1427
Stewart, Eugene L., counsel.....	1427

	Page
Manufacturing Chemists Association :	
Bryant, F. Leonard, chairman of the board of directors.....	3490
Christopher, William.....	3506
Driver, William, president.....	3490
Plumb, Robert.....	3490
Mara, John E., general president, Boot & Shoe Workers Union.....	2066
Marble Institute of America, Don A. Hagerich, executive director.....	4121
Marshall, Robert B., member, International Committee, Aerospace Industries Association of America, Inc.....	3847
Martin, Hon. Dave, a Representative in Congress from the State of Nebraska.....	3678
Martin, Lew B. :	
Miniature Precision Bearing Co., counsel.....	3345
Mushroom Processors Association, counsel.....	3885
Stainless Steel Flatware Manufacturers Association, secretary.....	1804
Martino, Frank D., Washington director, International Chemical Workers Union.....	3587
Marzetti, Alex, chairman, government relations committee, Mushroom Processors Association.....	3885
Masaoka, Mike M., Washington representative, Association on Japanese Textile Imports, Inc.....	1388
Masterson, Frank, president, Industrial Fasteners Institute.....	3811
Mass Retailing Institute :	
Archer, John, counsel.....	2671
Kessler, Bernard, president.....	2673
Peabody, Hon. Endicott.....	2671
Massachusetts Department of Commerce and Development, Carroll P. Sheehan, commissioner.....	2656
May, Ernest M., president, Otto B. May, Inc.....	3572
McCauley, Alfred R., counsel :	
American Importers Association, organic chemicals group.....	3508
Electronic Industries Association.....	2876
McClanahan, W. W., executive president, National Coal Policy Conference.....	2335
McClure, Hon. James A., a Representative in Congress from the State of Idaho.....	4296
McCulloch, Donald F., president, American Textile Manufacturers Institute.....	1217
McEvoy, James, research director, National Knitted Outerwear Association.....	1517
McEwen, Hon. Robert C., a Representative in Congress from the State of New York.....	1968
McFall, Hon. John J., a Representative in Congress from the State of California.....	4160
McKenna, Neal, on behalf of Rubber Manufacturers Association.....	2094
McLain, Marvin, director, legislative department, American Farm Bureau Federation.....	1620
McMillan, C. W., executive vice president, American National Cattle-men's Association.....	3687
McNeill, Robert L., executive vice chairman, Emergency Committee for American Trade.....	836
McQuade, Hon. Lawrence C., director, International Trade Club of Chicago.....	2559
Meagher, Edward, chairman, semiconductor division, Electronics Industries Association.....	2987
Meat Importers Association, Donn N. Bent, on behalf of John E. Ward, chairman.....	3696
Medders, Tom B., Jr., chairman, import policy committee, Independent Petroleum Association of America.....	2295
Mercer, Sam N., president, Discover America Travel Organizations, Inc.....	2581
Meredith, Ellis E., executive vice president, American Apparel Manufacturers Association.....	1373
Metal Masters of Baltimore, Md., H. M. Weiss, president.....	1916
Minard, Richard A., officer, Miniature Precision Bearing Co.....	3345
Minchew, Daniel, legislative director, United States-Japan Trade Council.....	1066
Miniature Precision Bearing Co. :	
Martin, Lew B., counsel.....	3345
Minard, Richard A., officer.....	3345

XVIII

Mink Hon. Patsy T., a Representative in Congress from the State of Hawaii	Page 2198
Mizell, Hon. Wilmer D., a Representative in Congress from the State of North Carolina	1513, 1549
Miss Erika, Inc., David Cuttman, executive representative	1552
Mollohan, Hon. Robert H., a Representative in Congress from the State of West Virginia	4293
Monagan, Hon. John S., a Representative in Congress from the State of Connecticut	4229
Monks James W., president, Berncolors-Poughkeepsie, Inc.	3571
Moorcones, John S., on behalf of the National Restaurant Association	3725
Mundt, John C., vice chairman, advisory committee, Cement Industry Antidumping Committee	4089
Murchison, David C., on behalf of Ceramic Tile Manufacturers of the United States	4074
Mushroom Processors Association:	
Damon, E. M., Jr., executive secretary	3885
Martin, Lewie B., counsel	3885
Marzetti, Alex, chairman, government relations committee	3885
National Association of Secondary Material Industries, Inc., Sidney Silver, vice president, foreign trade division	3823
National Association of Manufacturers, Donald H. Gleason, chairman, international taxation subcommittee	2438
National Association of Wool Manufacturers, Morton H. Darman, chairman of the board	1243
National Association of Scissors & Shears Manufacturers, James Farrington, president	2748
National Board of Fur Farm Organizations:	
Henderson, Dave, executive secretary	3051
Lovre, Hon. Harold O., Washington counsel	3051
Plaisted, Ken, general counsel	3051
Woodley, Albert	3057
National Canners Association, Leonard K. Lobred, director, international trade division	4327
National Cheese Institute, Inc., Robert F. Anderson, executive secretary	4178
National Coal Association, Brice O'Brien, vice president	2318
National Coal Policy Conference, W. W. McClanahan, executive president	2335
National Confectioners Association, John A. Buzzard, chairman, import-export advisory committee	4232
National Cotton Council of America:	
Lynn, Bruce N., president	1494
Wellford, Dabney S., economist	1494
National Electrical Manufacturers Association:	
Hobbs, Claude, chairman, committee on foreign trade policy	2934
Simpson, John W.	2934
National Farmers Organization, Harry L. Graham, legislative representative	987
National Farmers Union, Reuben L. Johnson, director of legislative services	4237
National Foreign Trade Council:	
Scott, Robert T., vice president	928
Walker, Melville H., executive vice president	928
National Fuel Gas Co., Herbert D. Clay, president	2315
National Grain & Feed Association, Richard J. Goodman, member, international trade committee	3734
National Handbag Association:	
Levy, Edward, executive director	2160
Weiss, Steven J., counsel	2155
National Livestock Feeders Association, Don F. Magdanz, executive secretary-treasurer	3704
National Machine Tool Builders Association:	
Henry D. Sharpe, Jr., first vice president	2489
Daniel W. LeBlond	2550
National Milk Producers Federation, Patrick B. Healy, secretary	4181

XIX

National Restaurant Association :	Page
Moorcones, John S.....	3725
Neville, Robert B.....	3725
Nunn, Ira H., counsel.....	3725
National Shoeboard Conference, Inc. :	
Fuller, Robert P., member, government affairs committee.....	2092
Jenkins, George O., Jr., chairman, government affairs committee.....	2092
Nathan, Robert R., American Mexican Association.....	3202
Nation-Wide Committee on Import-Export Policy, O. R. Strackbein, president.....	883
Neal, Alfred C., president, Committee for Economic Development.....	914
Nelson, Arthur, president, Revere Stainless Steel Sink Corp.....	1913
Neville, Robert B., on behalf of the National Restaurant Association.....	3725
New Delman, Mitchell J., attorney, semiconductor division, Electronic Industries Association.....	2987
New Jersey Economic Development Council, Peter Blake, acting director, Division of Economic Development, New Jersey Department of Labor and Industry.....	2659
Nolan, John E., counsel, Green Olive Trade Association.....	4347
North Atlantic Ports Association, Clifford B. O'Hara, chairman, foreign commerce and Government traffic committee.....	975
Northern Textile Association, Robert Booth, chairman.....	1240
Null, Lester, president, International Brotherhood of Operative Potters....	4041
Nunn, Ira H., counsel, National Restaurant Association.....	3725
O'Brien, Brice, vice president, National Coal Association.....	2318
O'Brien, Gerald, executive vice president, American Importers Association..	933
O'Rourke, Dennis, counsel, Farmers and Manufacturers Beet Sugar As- sociation.....	4243
O'Hara, Clifford B., appearing in behalf of American Association of Port Authorities (chairman, committee XI) and North Atlantic Ports As- sociation (chairman, foreign commerce and Government traffic com- mittee).....	975
Office Machines International Institute, Frederick D. Hunt, director.....	3314
Ohio Greenhouse Cooperative Association, Roger Ruetenik, vice president..	4371
Olson, Iver M., vice president, American Footwear Manufacturers As- sociation.....	1983
Oregon Cattlemen's Association, Fred Phillips, president.....	3693
Ostrander, F. Taylor, Jr., on behalf of the Chamber of Commerce of the United States.....	1050
Otto B. May, Inc., Ernest M. May, president.....	3572
Pacy, David G., vice president, British-American Chamber of Commerce....	1677
Palmer, Charles, Southern Dyestuff Co.....	3575
Pappas, John, Jr., Green Olive Trade Association.....	4347
Peabody, Hon. Endicott, Mass Retailing Institute.....	2671
Perkel, George, research director, Textile Workers Union of America....	1277
Perry, J. Wiley, Jr., chairman, import study committee, Cast Iron Soil Pipe Institute.....	1813
Peterson, Dean A., economic consultant, Volume Footwear Retailers of America.....	2082
Philips, A. Lloyd, president, American Aniline Products, Inc.....	3575
Phillips, Fred, president, Oregon Cattlemen's Association.....	3693
Piquet, Dr. Howard S., Washington, D.C.....	2676
Plaisted, Ken, general counsel, National Board of Fur Farm Organizations	3051
Plumb, Robert, Manufacturing Chemists Association.....	3490
Pollock, William, general president, Textile Workers Union of America....	1277
Potofsky, Jacob S., president, Amalgamated Clothing Workers of America..	1267
PPG Industries, Inc., Robert M. Hainsfurther, vice president and general manager, glass division.....	3986
Preyer, Hon. Richardson, a Representative in Congress from the State of North Carolina.....	1550
Price, Jay, director of public affairs, Electronic Industries Association...	2827
Priestland, Carl, economic consultant, American Apparel Manufacturers Association.....	1373
Pucinski, Hon. Roman C., a Representative in Congress from the State of Illinois.....	3647

Pulp & Paper Machinery Association :	Page
Alevra, Peter.....	2486
Joelson, Mark, counsel.....	2489
Pure Milk Products Cooperative, William C. Eckles, general manager.....	4217
Quillen, Hon. James, a Representative in Congress from the State of Tennessee.....	1617
Ramsey, Claude, chairman of the board, Man-Made Fiber Producers Association.....	1427
Reed, Richard E., executive secretary, Maine Sardine Packers Association and Maine Sardine Counsel.....	3892
Reeve, Perc A., executive vice president, Farmers and Manufacturers Beet Sugar Association.....	4243
Rehm, John B., Washington, D.C.....	2576
Reiser, Ralph, international president, United Glass & Ceramic Workers.....	4045
Revere Stainless Steel Sink Corp., Arthur Nelson, president.....	1913
Rhodes, Edward M., special consultant, American Sprocket Chain Manufacturers Association.....	3745
Richardson, Warren S., general counsel, Liberty Lobby.....	1630
Ricki Knits, Jr., David Guttman (executive representative, Miss Erika, Inc.).....	1552
Rinta, Eugene F., executive director, Council of State Chambers of Commerce.....	2439
Rivers, Hon. L. Mendel, a Representative in Congress from the State of South Carolina.....	3642
Robie, Merle C., chairman, executive committee, Cordage Institute.....	1264
Robison, Hon. Howard W., a Representative in Congress from the State of New York.....	2188
Roche, John P., president, American Iron & Steel Institute.....	1753
Rocky Mountain Oil & Gas Association, president, Bob Burch.....	2299
Rogers, Hon. Paul G., a Representative in Congress from the State of Florida.....	4164
Rogers, Hon. Walter E., president, Independent Natural Gas Association of America.....	2307
Rolled Zinc Manufacturers Association, William L. Donehower, Jr., chairman, executive committee.....	4112
Rose, Richard C., president, Trade Relations Council of the United States, Inc.....	3649
Rosoff, Morris, president, Brazilian-American Chamber of Commerce.....	1686
Roth, William M., vice chairman, international economic studies, research and policy committee, Committee for Economic Development.....	914
Rowan, Richard L., associate professor of industry and associate director, research unit, Wharton School of Finance and Commerce, University of Pennsylvania.....	1561
Rowe, Herbert, chairman, world trade committee, parts division and distributor products division, Electronic Industries Association (also on behalf of the American Loudspeaker Manufacturers Association).....	2881
Rubber Manufacturers Association :	
Brown, Neal.....	2094
Campbell, William, chairman, footwear division.....	2094
Cooper, Mitchell, counsel, footwear division.....	2094
McKenna, Neal.....	2094
Ruetenik, Roger, vice president, Ohio Greenhouse Cooperative Association.....	4371
Ruth, Hon. Earl B., a Representative in Congress from the State of North Carolina.....	4172
Rutherford, H. L., on behalf of International Engineering & Construction Industries Council.....	2481
Rutledge, Robert W., executive vice president, Florida Citrus Mutual.....	4305
Schenk, Prof. Alan, Wayne State University Law School.....	2585
Schuman, Samuel, past president, Green Olive Trade Association.....	4347
Schwengel, Hon. Fred, a Representative in Congress from the State of Iowa, submitting statement of William L. Hullsiek (vice president, corporate development, Amana Refrigeration, Inc.).....	1209
Schwenger, Robert B., Kensington, Md.....	2726
Scott, Robert T., vice president, National Foreign Trade Council.....	928

Seghers, Paul D., president, Institute on U.S. Taxation of Foreign Income, Inc	Page 2443
Shannon, Thomas F., counsel :	
American Footwear Manufacturers Association	2024
Bicycle Manufacturers Association of America	3850
Shapiro, Ralph, counsel, Fur & Leather Department of the Amalgamated Meat Cutters & Butcher Workmen of North America	3154
Sharp, James R., counsel :	
American Fur Merchants' Association, Inc.	3094
Imported Hardwood Products Association, Inc.	3195
Sharpe, Henry D. Jr., first vice president, National Machine Tool Builders Association	2489
Sheehan, Carroll P., commissioner, Massachusetts Department of Commerce and Development	2656
Sheehan, John J., legislative director, United Steelworkers of America	1823
Sherwin, Dale, assistant director, legislative department, American Farm Bureau Federation	1620
Sheskey, William, chairman, national affairs committee, American Footwear Manufacturers Association	2016
Shuman, Charles B., president, American Farm Bureau Federation	1620
Silver, Sidney, vice president, foreign trade division, National Association of Secondary Material Industries, Inc.	3823
Simpson, John W., on behalf of the National Electrical Manufacturers Association	2934
Sindelar, Charles, staff assistant, Zenith Radio Corp.	2945
Sisk, Hon. B. F., a Representative in Congress from the State of California	4157
Slide Fastener Association, Myron Solter, counsel	3864
Sloane, Jack, president, Standard Cellulose & Novelty Co.	2781
Society of American Florists, Douglas R. Gordon, assistant executive director	2797
Society of the Plastics Industry, International Committee :	
Christopher, William F., chairman	3322
Tiernan, Robert R., counsel	3322
Solter, Myron, counsel :	
Clothespin & Veneer Products Association	3331
Slide Fastener Association	3864
South Carolina, State of, Lt. Gov. John Carl West, on behalf of Gov. Robert E. McNair	1211
St Germain, Hon. Fernand J., a Representative in Congress from the State of Rhode Island	1509, 2195
Staggers, Hon. Harley O., a Representative in Congress from the State of West Virginia	1976
Stainless Steel Flatware Manufacturers Association :	
Allen, Edward A., Jr.	1810
Hemingway, Stuart C., Jr., executive vice president	1804
Martin, Lew B., secretary	1804
Standard Cellulose & Novelty Co., Jack Sloane, president	2781
Standard Oil Co. of New Jersey, Myron A. Wright (chairman of the board, Humble Oil & Refining Co.)	2210
Stanwyck, Edmund, president, E. Stanwyck Coil Co., Inc.	3016
Steele, Robert W., on behalf of Ceramic Tile Manufacturers of the United States	4074
Steiger, Hon. William A., a Representative in Congress from the State of Wisconsin	4300
Steinberg, David J., secretary and chief economist, Committee for a National Trade Policy	872
Stewart, Charles W., president, Machinery & Allied Products Institute.	2454
Stewart, Eugene L., counsel :	
American Loudspeaker Manufacturers Association	2809, 2881
Electronic Industries Association	2809, 2881
Man-Made Fiber Producers Association	1427
Flat Glass Domestic Producers Association	3988
Trade Relations Council of the United States, Inc.	3649
U.S. Dyestuff Producers	3575

	Page
Stinson, George A., chairman, American Iron & Steel Institute.....	1753
Stitt, Nelson A., director, United States-Japan Trade Council :	
Testimony	1066, 1127
Membership list.....	1131
Registration statement filed with Department of Justice, pursuant to Foreign Agents Registration Act of 1938.....	1143
Statement of Congressman John W. Byrnes (Wis.), a Member of the Committee on Ways and Means, with reference to testimony of Mr. Stitt	1126, 3641
Interrogation by Congressman John W. Byrnes (Wis.) of Mr. Stitt.....	1155
Stobaugh, Robert B., American Importers Association, Organic Chemicals Group	3509
Stoffel, Albert W., chairman, International Committee-Trade Policy Task Group, Aerospace Industries Association of America, Inc.....	3843
Stoll, Dr. Reiner, member, executive advisory committee, Man-Made Fiber Producers Association.....	1427
Stone & Allied Products Workers, Hollan Cornett, international vice president	4055
Stone, Eugene, III, president, Stone Manufacturing Co.....	1554
Stone, Glass & Clay Coordinating Committee, panel in behalf of :	
Chester, Howard P., executive secretary.....	4032
Cornett, Hollan, international vice president, Stone & Allied Products Workers	4055
Null, Lester, president, International Brotherhood of Operative Potters	4041
Reiser, Ralph, international president, United Glass & Ceramic Workers	4045
Stone Manufacturing Co., Eugene Stone III, president.....	1554
Strackenbein, O. R., president, Nation-Wide Committee on Import-Export Policy	883
Stratton, Hon. Samuel S., a Representative in Congress from the State of New York.....	1965
Sun Oil Co., Robert G. Dunlop, chairman of the board.....	2239
Surrey, Walter Sterling, member, international committee, Chamber of Commerce of the United States.....	1039
Swank, Dr. Howard, member, executive advisory committee, Man-Made Fiber Producers Association.....	1427
Synthetic Organic Chemical Manufacturers Association :	
Barnard, Robert C., counsel.....	3371
Bissinger, Fred, senior vice president.....	3371
Davies, Richard, economist.....	3476
Egge, George V., Jr.....	3364
Turchan, Thomas P., president.....	3364
Taft, Hon. Charles P., chairman, Committee for a National Trade Policy..	852
Tanners Council of America, Inc. :	
Anderson, Robert W.....	2023
Glass, Irving R., president.....	2005
Taquesy, Charles H., Washington, D.C.....	2723
Tenneco Chemicals, Inc. :	
Crimmins, Michael T., counsel.....	3565
Goldman, Julius, marketing manager, industry sales, Tenneco color division	3565
Teper, Lazare, director of research, International Ladies' Garment Work- ers' Union, AFL-CIO.....	1269
Textile Workers Union of America :	
Perkel, George, research director.....	1277
Pollock, William, general president.....	1277
Thomson, Hon. Vernon W., a Representative in Congress from the State of Wisconsin.....	3971
Thurmond, Hon. Strom, a U.S. Senator from the State of South Carolina..	1538
Tie Fabric Importers Association, George Bronz.....	1541
Tiernan, Robert R., counsel, Society of the Plastics Industry, Interna- tional Committee.....	3322
Tindal, D. Leslie, president, American Soybean Association.....	4222
Toro, Carlos, vice chairman-designate, world affairs committee, Greater Detroit Chamber of Commerce.....	1636

XXIII

Townsend, Lynn, on behalf of the Emergency Committee for American Trade	Page 750
Trade Relations Council of the United States, Inc.:	
Ashley, James M., cochairman, board of trustees	3649
Rose, Richard C., president	3649
Stewart, Eugene L., general counsel	3649
Turchan, Thomas P., president, Synthetic Organic Chemical Manufacturers Association	3364
Uhler, Berman, Blackman Uhler Chemical Division	3575
Umbrella Frame Association of America:	
Evans, S. W., member	2796
Finkel, Leonard E., president	2790
Underhill, William Amory, counsel, Florida Citrus Mutual	4305
United Glass & Ceramic Workers, Ralph Reiser, international president	4045
United Hat, Cap & Millinery Workers International Union, Gerald R. Coleman, vice president-executive secretary	1317
United Rubber, Cork, Linoleum & Plastic Workers of America, John Campbell, assistant general counsel	2137
United Shoe Workers of America, George O. Fecteau, general president	2061
United States Council of the International Chamber of Commerce, Daniel L. Goldy, vice chairman, committee on commercial policy	1170
United States-Japan Trade Council:	
Minchew, Daniel, legislative director	1066
Stitt, Nelson A., director;	
Testimony	1066, 1127
Membership list	1131
Registration statement filed with Department of Justice, pursuant to Foreign Agents Act of 1938	1143
Statement of Congressman John W. Byrnes (Wis.) a member of the Committee on Ways and Means, with reference to testimony of Mr. Stitt	1126, 3641
Interrogation by Congressman Byrnes (Wis.) of Mr. Stitt	1155
United Steelworks of America, John J. Sheehan, legislative director	1823
United Textile Workers of America, George Baldanzi, international president	1290
U.S. dyestuff producers, panel of:	
Gorton, Harry, American Aniline Products, Inc.	3575
Palmer, Charles, Southern Dyestuff Co.	3575
Phillips, A. Lloyd, president, American Aniline Products, Inc.	3575
Stewart, Eugene L., counsel	3575
Uhler, Berman, Blackman, Uhler Chemical Division	3575
U.S. National Fruit Export Council, Leonard K. Lobred, secretary-treasurer	4367
U.S. Potters Association, David A. Golden, tariff and customs counsel	1188
Vansant, John M., Jr., counsel, Chatten Drug & Chemical Co., of Chattanooga, Tenn.	3591
Veltfort, Theodore E., managing director, Copper & Brass Fabricators Council, Inc.	1830
Vest, Kay, manager, international group, Chamber of Commerce of the United States	1039
Vilsack, Robert M., on behalf of American Pipe Fittings Association	1905
Volume Footwear Retailers of America:	
Atkins, Edward, executive vice president	2078
Peterson, Dean A., economic consultant	2082
Weiss, Morton A., president	2074
Walker, Melville H., executive vice president, National Foreign Trade Council	928
Wang Laboratories, Inc., Edward Lesnick, director of product planning	3013
Wardell, Robert J., assistant managing director, Copper & Brass Fabricators Council, Inc.	1830
Warrell, Carrol J., chairman, tariff and customs committee, Cycle Parts & Accessories Association	3858
Warren, James L., chairman, legislative committee, Maine Sardine Packers Association and Maine Sardine counsel	3892
Wayman, staff vice president, consumer products division, Electronic Industries Association	2870
Webb, Alison, director of marketing, chemical division, GAF Corporation	3568

XXIV

Weinberg, Ira, vice president and general manager, Empire State Novelty Corp	Page 2779
Weiss, Abraham, legislative counsel:	
Distillery, Rectifying, Wine, & Allied Workers International Union.....	2801
International Leather Goods, Plastics, & Novelties Workers Union.....	2143
Weiss, H. M., president, Metal Masters of Baltimore, Md.....	1916
Weiss, Morton B., president, Volume Footwear Retailers of America.....	2074
Weiss, Steven J., counsel, National Handbag Association.....	2155
Wellford, Dabney S., economist, National Cotton Council of America.....	1494
West, Hon. John Carl, Lieutenant Governor, State of South Carolina, on behalf of Gov. Robert E. McNair.....	1211
Wilcox, William F., on behalf of American Pipe Fittings Association.....	1908
Wilson, Henry H., president, Chicago (Ill.) Board of Trade.....	4323
Wingerter, Robert G., president, Libbey-Owens-Ford Co.....	3972
Wisconsin Cheese Makers' Association, Robert G. Lewis.....	4212
Wishart, James, research director, Amalgamated Meat Cutters & Butcher Workmen of North America.....	2130
Wold, Hon. John S., a Representative in Congress from the State of Wyoming.....	4173
Woodley, Albert, National Board of Fur Farm Organizations.....	3057
Worldwide Shoes, Inc., Harry A. Kozac, president.....	2162
Wright, Joseph S., chairman of the board, Zenith Radio Corp.....	2945
Wright, Myron A. (chairman of the board, Humble Oil & Refining Co.), on behalf of the American Petroleum Institute.....	2210
Wyman, Hon. Louis C., a Representative in Congress from the State of New Hampshire.....	1971
Zenith Radio Corp:	
Sindelar, Charles, staff assistant.....	2945
Wright, Joseph S., chairman of the board.....	2945
Zwach, Hon. John M., a Representative in Congress from the State of Minnesota	3881

MATERIAL SUBMITTED FOR THE RECORD

BY GOVERNMENT WITNESSES

Commerce, Department of:

Stans, Hon. Maurice H., Secretary:

Cordage industry (United States), information concerning im- ports and employment status.....	491
DISC, letter relating to, with enclosure, to Chairman Mills.....	2334
Escape clause decisions of Tariff Commission, and President's actions thereon.....	465
Wool/man-made fiber textiles, foreign import restrictions on, report...	309

Labor, Department of:

Shultz, Hon. George P., Secretary:

Exports and imports, employment relationships.....	608
Letter dated June 17, 1970, to Chairman Mills, with attachment proposing amendment to section 304 of H.R. 14870.....	594
Written statement concerning "Cabinet Task Force Report on Oil Import Control" with appendix containing observations of some criticisms of the task force report which occurred during testi- mony of June 3, 1970.....	2340

State, Department of, David M. Abshire, Assistant Secretary for Con- gressional Relations:

Letter dated May 21, 1970, to Chairman Mills, with regard to wages...	579
Letter to Chairman Mills.....	4212

Trade Negotiations, Office of Special Representative of, Hon. Carl J. Gilbert, Special Representative:

Benzenoid chemicals, title IV of H.R. 17551 (90th Cong.), statement pertaining to.....	660
Border tax adjustments.....	726
Export-import trade breakdown, category by category.....	127
Response to Synthetic Organic Chemical Manufacturers Association (SOCMA) questions.....	719
Staff Papers and Inventory of Industrial Nontariff Barriers.....	166

Treasury, Department of:

Englert, Roy T., Acting General Counsel, letter dated June 16, 1970, to Chairman Mills with regard to GATT.....	Page 528
Nolan, John S., Acting Assistant Secretary for Tax Policy: Company and Industry Responses to DISC Proposal, comments... U.S. Income Tax Provisions Affecting Tax Planning for Sales in Foreign Markets, summary.....	543 546
Report entitled "Domestic International Sales Corporation, Technical Explanation of Treasury Proposal".....	511
Rossides, Eugene T., Assistant Secretary for Enforcement and Operations: Antidumping and countervailing duty laws, information regarding administration of.....	523
Response to testimony of Cast Iron Soil Pipe Institute, letter dated July 16, 1970, to John M. Martin, Jr., chief counsel, Com- mittee on Ways and Means, with enclosures.....	1822a
Volcker, Paul A., Under Secretary for Monetary Affairs: Foreign direct taxation laws affecting export activities, provi- sions in.....	548
Treasury revenue estimates concerning DISC.....	524

BY PUBLIC WITNESSES

Ajinomoto Co. of New York, Inc., H. William Tanka, statement.....	3621
Alcan Aluminum Corp., Eric A. Trigg, president, statement.....	3831
Alder, Donald H., president, Maestro Import Industries, Inc., letter, dated May 13, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3305
Allerhand, Irving W., on behalf of CITC Industries, Inc., statement.....	2171
Aluminum Association, Monroe Leigh, counsel, international policy com- mittee, statement.....	3827
Amalgamated Clothing Workers of America, supplemental statement pre- ceded by letter of transmittal from Stanley H. Ruttenberg.....	1271
Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO), Leon B. Schachter, vice president and director, Washington office, statement....	3961
Amara Refrigerator, Inc., William L. Hullsiek, vice president, corporate development, prepared statement submitted by Representative Schwen- gel of Iowa.....	1209
American Association of University Women, Mrs. Jean Ross, chairman, legislative program committee, statement.....	1746
American Cotton Shippers Association, Neal P. Gillen, vice president and general manager, letter, dated June 8, 1970, to Chairman Mills.....	2606
American Cyanamid Co., C. D. Siverd, president and chief executive of- ficer, statement.....	3630
American Federation of Labor-Congress of Industrial Organizations, An- drew J. Biemiller, director, department of legislation: Policy resolution.....	1015
Letter to Chairman Mills.....	2603
American Flint Glass Workers' Union of North America, George M. Parker, president, statement.....	4061
American Footwear Manufacturers Association, Iver M. Olson, vice presi- dent, letter dated June 17, 1970, to Chairman Mills, with enclosures....	2036
American Fur Breeder, Harold Scales, editor and publisher, statement....	3181
American Importers Association: Machine tool group, Eric R. Bachman, chairman of steering committee, statement.....	2556
Textile and apparel group, Michael P. Daniels, counsel: "Long-Term Textile Outlook: More" (paper).....	1333
"Textiles in the Seventies," article from the Chemical and Engi- neering News.....	1345
Trade policy committee, Ralph H. Cutler, Jr., chairman, brochure entitled "Here's What's Wrong With Import Quotas".....	938
American Institute of Certified Public Accountants, Division of Federal Taxation, statement.....	2602
American Paper Institute, John F. Darrow, vice president, letter, dated June 2, 1970, to Chairman Mills.....	2604
American Petroleum Refiners Association, Walter Famariss, Jr., president. statement.....	2370

XXVI

Amity Leather Products Co., Leonard E. Benedict, secretary, letter dated May 27, 1970, to Chairman Mills.....	Page 2175
Apel, Peter C., president, Upholstery & Decorative Fabrics Association of America, letter dated June 23, 1970, to Chairman Mills.....	1603
Associated Fur Manufacturers Association, Inc., J. George Greenberg, executive vice president, statement.....	3183
Association of Food Distributors, Inc., Harold Bruce, executive vice president, statement.....	4338
Association of Yarn Distributors, Mars J. Bishop, president, letter dated May 22, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	1596
Association of Fur Farm Suppliers, Inc. : Bear, David A., past president, statement.....	3179
Graff, Herbert, statement.....	3179
Atkins, Edward, executive vice president, Volume Footwear Retailers of America, supplementary statement.....	2088
Australia, Government of, letter dated June 16, 1970, forwarded by letter of transmittal from the U.S. Department of State.....	1579
Auto Air Accessories, Inc., Howard E. Roberts, president, letter, dated June 9, 1970, to Chairman Mills.....	2644
Automobile Manufacturers Association, Inc., Thomas C. Mann, president, letter dated May 20, 1970, to Chairman Mills.....	1728
B. F. Goodrich Co., Charles M. Jorgeson, general manager, textile division, statement.....	1613
Bachmann, Eric R., chairman of steering committee, American Importers Association, machine tool group, statement.....	2556
Baguena, Mariano, executive secretary, Spain-U.S. Chamber of Commerce, Inc., statement.....	1736
Baker, Hon. Howard H., Jr., a U.S. Senator from the State of Tennessee, statement.....	3619
Ballantyne of Omaha (Nebr.), Inc., J. Robert Hoff, president, statement.....	3047
Barschdorf, Milton P., port director, Greenville (Miss.) Port Commission, letter, dated June 5, 1970, to Chairman Mills.....	2635
Bauer, Richard J., chairman of the board, Independent Zinc Alloys Association, statement.....	4120
Baughman, Harry W., Jr., national president, Window Glass Cutters League of America, statement.....	4063
Beam's International Division, O. T. Beam, letter, dated June 8, 1970, to Chairman Mills.....	2644
Bear, David A., past president, Association of Fur Farm Suppliers, Inc., statement.....	3179
Beemer, George T., manager, Florida Flower Association, Inc., statement.....	2800
Benedict, Leonard E., secretary Amity Leather Products Co., letter dated May 27, 1970, to Chairman Mills.....	2175
Berard, Jack B., president, Pacific Coast Coffee Association : Letter, dated May 25, 1970, to Chairman Mills.....	3964
Letter, dated June 26, 1970, to Chairman Mills, with attachments.....	3964
Berman, A. T., Toby Berman Corp., letter dated May 20, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	1568
Berry, Hon. E. Y. a Representative in Congress from the State of South Dakota, statement.....	1700
Biemiller, Andrew J., director, department of legislation, American Federation of Labor-Congress of Industrial Organizations : Policy resolution.....	1015
Letter to Chairman Mills.....	2603
Birkhead, Frank, Jr., manager, McAllen (Tex.) Industrial Board, statement.....	3293
Bishop, Mars J., president, Association of Yarn Distributors, letter dated May 22, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	1596
Boecklin, George E., president, National Coffee Association, letter, dated May 13, 1970, to Chairman Mills, with attachment.....	3960
Borsum, Leslie C., sales manager, feed sales division, Kellogg Co., statement.....	3188
Boss Manufacturing Co., Kurt Schaffer, vice president-administration, statement.....	3308

XXVII

Bourbon Institute, V. Adm. William J. Marshall, U.S.N. (ret.), president, statement	Page 2811
Brennan, Joseph P., director of research, and marketing, United Mine Workers of America, statement.....	2366
Briggs, Porter, executive secretary, Catfish Farmers of America, statement.....	3898
Brock, Hon. W. E., a Representative in Congress from the State of Tennessee, letter, dated June 17, 1970, to Chairman Mills.....	3619
Brownsville (Texas), Port of, Al Cisneros, general manager and port director, letter dated June 3, 1970, to Chairman Mills, with enclosure.....	2389
Bruce, David S., chairman, Petrochem Group, statement.....	2362
Bruce, Harold, executive vice president, Association of Food Distributors, Inc., statement.....	4338
Bruno, Vincent J., director, World Trade Department, Commerce and Industry Association of New York, letter, dated May 21, 1970, to Chairman Mills.....	3292
Builders Hardware Manufacturers Association, Clyde T. Nissen, executive director, statement.....	3812
Burrows, Fred W., executive vice president, International Apple Association, Inc., letter, dated June 22, 1970, to Chairman Mills, with enclosure.....	4391
Business Equipment Manufacturers Association, John S. Voorhees, counsel, statement.....	3237
Butler, George D., president, Electronic Industries Association, position paper	2834
Byrne, George P., Jr., secretary, United States Wood Screw Service Bureau, letter dated June 5, 1970, to Chairman Mills, with attachments.....	3815
Bywater, William, vice president, International Union of Electrical, Radio, & Machine Workers: Summary and statement given before the Tariff Commission on May 5, 1970	2914
"The Developing Crisis in Electronics and Companion Industries," article	2908
California Council for International Trade, G. B. Levine, chairman, legislative committee:	
Letter dated May 15, 1970, to Chairman Mills, with attachments.....	3292
Letter dated June 17, 1970, to Chairman Mills, with position paper.....	2633
California Dried Fig Advisory Board, Ron Klammm, manager, statement.....	4375
California Fig Institute, Ron Klammm, managing director, statement.....	4375
California State Chamber of Commerce, Ernest J. Loebbecke, president, letter of transmittal dated April 16, 1970, to Chairman Mills, with enclosures	1701
Candle Manufacturers Association, H. R. Parker, secretary, letter, dated May 26, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	2785
Canners League of California, statement.....	4161
Card Clothing Manufacturers Association, E. A. Snape, Jr., chairman, tariff committee, statement.....	1589
Carlson, Paul, on behalf of the Welded Steel Tube Institute, statement.....	1935
Caskie, Maxwell, vice president, Reynolds Metals Co., letter dated June 26, 1970, to Chairman Mills.....	3831
Cast Iron Soil Pipe Institute, Wiley J. Perry, Jr., chairman, import study committee:	
Letter dated April 9, 1968, to Secretary of the Treasury Henry H. Fowler	1816
Letter dated April 17, 1970, to Secretary of the Treasury David M. Kennedy	1818
Catfish Farmers of America, Porter Briggs, executive secretary, statement.....	3898
Cement Industry Antidumping Committee, Donald Hiss, counsel:	
Letter dated June 16, 1970, to Congressman Betts of Ohio.....	4111
Letter dated June 16, 1970, to Congressman Conable of New York.....	4110
Chamber of Commerce of the United States:	
Ostrander, F. Taylor, speech delivered to Chamber of Commerce of Buffalo, N.Y., May 22, 1970.....	1062
Statham, Robert R., taxation and finance manager, statement.....	2602
Cheese Importers Association of America, Inc., Martin A. Fromer, counsel, letter dated June 3, 1970, to Chairman Mills.....	4221

XXVIII

Chemco Group, Morse G. Dial, Jr., chairman, and Petrochem Group, David S. Bruce, chairman, statement-----	Page 2362
Cheney Bros., Hon. Albert P. Morano, letter dated April 13, 1970, to Chairman Mills-----	1614
Cherokee Products Co., Jesse G. Moore, letter dated June 1, 1970, forwarded by Congressman Landrum of Georgia-----	4339
Chilton, Werner F., president, West Coast Metal Importers Association, letter dated June 10, 1970, to Chairman Mills-----	1920
Christensen, John R., John R. Christensen Associates, letter dated June 25, 1970, to the Committee on Ways and Means-----	2783
Chrysler Corp., Brian T. O'Keefe, assistant comptroller, letter dated May 27, 1970, to Chairman Mills-----	2637
Cisneros, Al, general manager and port director, Port of Brownsville (Texas), letter dated June 3, 1970, to Chairman Mills, with enclosure-----	2389
CITC Industries, Inc., Irving W. Allerhand, statement-----	2171
Clayman, Jacob, administrative director, Industrial Union Department, AFL-CIO, letter dated June 29, 1970, to Chairman Mills, with enclosures-----	1789
Cleveland, Hon. James C., a Representative in Congress from the State of New Hampshire: Letter dated June 11, 1970, to Chairman Mills, with attachments-----	3361
Letter dated June 26, 1970, to Chairman Mills, with attachments-----	3363
Cold Spring Granite Co., Kenneth R. Kruchten, director of marketing, letter dated June 8, 1970, to Chairman Mills, with attachment-----	4154
Committee for a National Trade Policy, David J. Steinberg, secretary and chief economist: "Wanted for U.S. Trade Policy: A Single Baton and a Certain Trumpet" (speech before the Newark Rotary Club, June 2, 1970)-----	879
"U.S. on a Collision Course in Trade Policy," (speech before the Milwaukee World Trade Club, October 2, 1969)-----	874
Committee of Producers of Ferroalloys and Related Products, Lloyd Symington, counsel, letter dated June 26, 1970, to Chairman Mills, with statement-----	1922
Commerce and Industry Association of New York, Vincent J. Bruno, director, World Trade Department, letter, dated May 21, 1970, to Chairman Mills-----	3292
Conner, Doyle, commissioner, Florida Department of Agriculture and Consumer Services, letter dated June 1, 1970, to Chairman Mills-----	4317
Conte, Hon. Silvio O., a Representative in Congress from the State of Massachusetts, statement-----	3019
Control Data Corp., Hugh P. Donaghue, assistant to the president, statement-----	2990
Cook Industries, Inc., Frank A. Jones, Jr., executive vice president-finance, letter, dated June 8, 1970, to Chairman Mills-----	2643
Cooperative League of the USA, Stanley Dreyer, president, letter dated May 14, 1970, to Chairman Mills-----	1728
Cordage Institute of the United States, statement-----	1249
Corn Refiners Association, Inc., Robert C. Liebenow, president, letter, dated June 9, 1970, to Chairman Mills-----	4396
Cox, Langford & Brown, counsel, Glaverbel (USA), Inc., letter dated June 26, 1970, to Chairman Mills-----	4022
Crompton Co., Inc., Howard Richmond, president, statement-----	1611
Crystal International Corp., David P. Houlihan, counsel, statement-----	4005
Cutler, Ralph H., Jr., chairman, trade policy committee, American Importers Association, brochure titled "Here's What's Wrong With Import Quotas"-----	983
Dana Corp., R. C. McPherson, president, letter dated June 1, 1970, to Chairman Mills, with statement-----	2639
Daniels, Michael P., Washington counsel: American Importers Association, textile apparel group: "Long-Term Textile Outlook: More" (paper)-----	1333
"Textiles in the Seventies," article from the Chemical and Engineering News-----	1345
Swiss Union of Commerce and Industry, statement forwarded by Swiss Embassy through the Department of State-----	3622

XXIX

	Page
Danish American Trade Council, Knud Sorensen, president, statement.....	1740
Darrow, John F., vice president, American Paper Institute, letter, dated June 2, 1970, to Chairman Mills.....	2604
Davis Equipment, W. W. Hanley, controller, letter, dated June 9, 1970, to Chairman Mills.....	2643
David, Joffre C., secretary-treasurer, Florida Fruit & Vegetable Association, statement.....	4340
Deisler, Paul F., Jr., vice president, manufacturing, transportation and supplies, and marketing, letter, dated June 25, 1970, to Chairman Mills, with statement.....	2280
Design Products, Inc., Harry Goodman, president, letter dated May 20, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3823
DeRan, James, general manager, Farmers Production Credit Association, letter dated June 19, 1970.....	4401
DeWick, John S., vice president, FMC Corp., letter, dated June 17, 1970, to Chairman Mills.....	3634
Dial, Morse G., chairman, Chemco Group, statement.....	2362
Domestic Manufacturers of Knotted Fish Netting and Fishing Nets, Howard C. Johnson, statement.....	1597
Donaghue, Hugh P., assistant to the president, Control Data Corp., statement.....	2990
Dorn, Hon. Wm. Jennings Bryan, a Representative in Congress from the State of South Carolina, statement.....	1570
Douglas, Donald W., Jr., corporate vice president for administration, McDonnell Douglas Corp., statement.....	3849
Dowland, Robert E., vice president, Mitchum Co., letter, dated June 3, 1970, to Chairman Mills.....	2645
Dreyer, Stanley, president, Cooperative League of the USA, letter dated May 14, 1970, to Chairman Mills.....	1728
E. D. Magnus & Associates, Inc., Frank G. Reinhard, president, letter, dated May 26, 1970, to Chairman Mills.....	2644
E. I. du Pont de Nemours & Co., Samuel Lenher, vice president, letter dated June 3, 1970, to Chairman Mills (with enclosure).....	1605
Electronic Industries Association, George D. Butler, president, position paper.....	2834
Emergency Committee for American Trade:	
Haggerty, Patrick E., statement.....	752
Townsend, Lynn, article entitled "Digest of Import Duties for Motor Vehicles Levied by Selected Countries".....	760
Evans, C. M., president, Welch Allyn, Inc., Skaneateles Falls, N.Y.....	3042
Evans, Hon. Daniel J., Governor, State of Washington, letter dated May 27, 1970, to Chairman Mills (with enclosure).....	1696
Evaporated Milk Association, Fred J. Greiner, executive vice president, statement.....	4221
Exportadora, Inc., of Illinois, W. R. Magnus, president, letter, dated June 22, 1970, to Chairman Mills.....	2645
Falk, Bernard H., vice president, government and membership services, National Elecerical Manufacturers Association, letter dated June 16, 1970, to Chairman Mills, with attachments.....	2941
Famariss, Walter, Jr., president, American Petroleum Refiners Association, statement.....	2370
Farmers Production Credit Association, Jay K. Kohler, president, and James DeRan, general manager, letter dated June 19, 1970.....	4400
Farrar, Hon. Frank L., Governor, State of South Dakota, letter dated June 1, 1970, to Chairman Mills.....	3730
Field, Richard M., president, Tea Association of the United States of America, Inc., letter dated June 19, 1970, to Chairman Mills.....	4401
Fine & Specialty Wire Manufacturers Association, J. A. Mogle, chairman foreign trade committee, statement.....	1954
First Devonshire Corp. (New York, N.Y.), Yale L. Meltzer, assistant director of research, statement.....	3637
First National Bank of Memphis, William W. Mitchell, president, letter, dated June 10, 1970, to Chairman Mills.....	2646

Flegenheimer, Ernest, president, Michigan Sugar Co., statement, forwarded by Congressman James Harvey, of Michigan.....	Page 2395
Florida Citrus Commission, Edward A. Taylor, executive director, citrus department, letter dated May 28, 1970, to Chairman Mills.....	4316
Florida Citrus Mutual, Robert W. Rutledge, executive vice president, brief in behalf of the Florida citrus growers.....	4309
Florida Department of Agriculture & Consumer Services, Doyle Conner, commissioner, letter, dated June 1, 1970, to Chairman Mills.....	4317
Florida Flower Association, Inc., George T. Beemer, manager, statement.....	2800
Florida Fruit & Vegetable Association, Joffre C. David, secretary-treasurer, statement.....	4340
Florida Fresh Citrus Shippers Association, W. G. Strickland, secretary-general manager, letter dated June 3, 1970, to Robert W. Rutledge, executive vice president.....	4316
FMC Corp., John S. DeWick, vice president, letter, dated June 17, 1970, to Chairman Mills.....	3634
Form-O-Uth Co., Calvin Fraser, president, letter, dated June 19, 1970, to Committee on Ways and Means.....	3306
Forrow, Brian D., letter dated June 16, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	1709
Fraser, Calvin, president, Form-O-Uth Co., letter, dated June 19, 1970, to Committee on Ways and Means.....	3306
Fromer, Martin A., counsel, Cheese Importers Association of America, Inc., letter, dated June 3, 1970, to Chairman Mills.....	4221
Fur Dresser's Bureau of America, Arthur M. Stringari, legal counsel, statement.....	3185
Furriers Joint Council of New York, Oscar Ward, assistant manager, letter dated June 18, 1970, to Chairman Mills, with enclosure.....	3167
Gasket Materials Producers Institute, Inc., Charles A. Hofmann, president, letter, dated June 12, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	2558
General Electric Co., New York; N.Y., statement.....	3023
General Time Corp., statement.....	3298
Gillen, Neal P., vice president and general manager, American Cotton Shippers Association, letter, dated June 8, 1970, to Chairman Mills.....	2606
Gillon, J. Werner, president, Status Shoe Corp., statement.....	2169
Glaverbel (USA), Inc., Cox, Langford & Brown, counsel, letter dated June 26, 1970, to Chairman Mills.....	4022
Goodling, Hon. George A., a Representative in Congress from the State of Pennsylvania, statement.....	2165
Goodman, Harry, president, Design Products, Inc., letter dated May 20, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3823
Graff, Herbert, in behalf of Association of Fur Farm Suppliers, Inc., statement.....	3179
Graham, Harry L., legislative representative, National Farmers Organization, supplemental statement entitled, "The United States and the I.G.A.".....	994
Greeff Fabrics, Inc., Theodore Greeff, president, letter dated June 24, 1970, to Chairman Mills.....	1614
Greeff, Theodore, president, Greeff Fabrics, Inc., letter dated June 24, 1970, to Chairman Mills.....	1614
Green Coffee Association of New Orleans, Trion T. Harris, president, letter dated May 11, 1970, to Chairman Mills.....	3968
Greenberg, J. George, executive vice president, Associated Fur Manufacturers Association, Inc., statement.....	3183
Greenville (Miss.) Port Commission, Milton P. Barschdorf, port director, letter dated June 5, 1970, to Chairman Mills.....	2635
Greiner, Fred J., executive vice president, Evaporated Milk Association, statement.....	4221
Grospiron, A. F., president, Oil, Chemical and Atomic Workers International Union, statement.....	3626
Gulf+Western Industries, Inc., Victor L. Nutt, Washington counsel, letter, dated June 15, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3295

Haggerty, Patrick E., member, Emergency Committee for American Trade, statement	Page 752
Hampton, Robert N., director of marketing and international trade, National Council of Farmer Cooperatives, statement	4269
Harris, Trion T., president, Green Coffee Association of New Orleans, letter dated May 11, 1970, to Chairman Mills	3968
Harvey, H. A., Jr., president, Harvey Industries, Inc., statement	4072
H. Kohnstamm & Co., Inc., Paul L. Kohnstamm, president, letter dated May 20, 1970, to Chairman Mills	3633
Hadley, G. L., president, National Livestock Feeders Association, statement	3704
Hanley, W. W., controller, Davis Equipment, letter dated June 9, 1970, to Chairman Mills	2643
Hanson, Orin T., manager, agricultural and world trade department, Greater Minneapolis Chamber of Commerce, statement	3635
Hardwood Plywood Manufacturers Association, statement	3197
Harman, Roy D., Christianburg, Va., statement	3194
Harshaw Chemical Co., J. A. Zelek, vice president-general manager, pigment and dye department, letter dated May 20, 1970, to the Committee on Ways and Means	3635
Hatfield, Hon. Mark O., a U.S. Senator from the State of Oregon, letter dated June 26, 1970, to Chairman Mills, with attachments	3174
Henderson, David W., executive secretary, National Board of Fur Farm Organizations, statement	3073
Hendricks, H. L., Volco, Inc., letter dated May 16, 1970, forwarded by Congressman Graham Purcell of Texas	2177
Hills Brothers Coffee, Inc., Reuben W. Hills III, president, telegram dated May 18, 1970, to Chairman Mills	3968
Hiss, Donald, counsel, Cement Industry Antidumping Committee : Letter dated June 16, 1970, to Congressman Betts of Ohio	4111
Letter dated June 16, 1970, to Congressman Conable of New York	4110
Hoff, J. Robert, president, Ballantyne of Omaha (Nebr.), Inc., statement	3047
Hofmann, Charles A., president, Gasket Materials Producers Institute, Inc., letter dated June 12, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means	2558
Holmberg, Donald W., secretary, U.S./Mexico Border Cities Association, letter dated May 25, 1970, to the Committee on Ways and Means, with statements	3254
Hommel, E. M., president, O. Hommel Co., letter dated May 18, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means	3640
Houlihan, David P., counsel, Crystal International Corp., statement	4005
Hughes, H. B., Hughesco, Inc., letter dated May 20, 1970, forwarded by Congressman Graham Purcell of Texas	2176
Hughesco, Inc., H. B. Hughes, letter dated May 20, 1970, forwarded by Congressman Graham Purcell of Texas	2176
Hullsiek, William L., vice president, corporate development, Amana Refrigerator, Inc., prepared statement, submitted by Representative Schwengel of Iowa	1209
Hungate, Hon. William L., a Representative in Congress from the State of Missouri, letter dated June 23, 1970, to Chairman Mills	3731
Illinois, State of, Hon. Richard B. Ogilvie, Governor, statement	1694
Impression Fabrics Group, J. A. Sullivan, Jr., chairman, letter dated June 5, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means	1591
Independent Petroleum Association of America, Robert E. Mead, president, statement (submitted by Minor Jameson, executive vice president)	2289
Independent Refiners Association of America, statement	2377
Independent Zinc Alloys Association, Richard J. Bauer, chairman of the board, statement	4120
Industrial Union Dept., AFL-CIO, Jacob Clayman, administrative director, letter dated June 29, 1970, to Chairman Mills, with enclosures	1789
Institute on U.S. Taxation of Foreign Income, supplemental statement	2450
International Apple Association, Inc., Fred W. Burrows, executive vice president, letter, dated June 22, 1970, to Chairman Mills, with enclosure	4391

International Ladies' Garment Workers' Union :	
Supplemental Statement preceded by letter of transmittal from Stanley H. Ruttenberg-----	Page 1271
Teper, Lazare, director, research department, letter dated June 8, 1970, to Chairman Mills, with statement-----	3218
International Molders & Allied Workers Union, Carl Studenroth, vice president, statement-----	1933
International Union of Electrical, Radio, & Machine Workers, William Bywater, vice president :	
Summary and statement given before the Tariff Commission on May 12, 1970-----	2914
"The Developing Crisis in Electronics and Companion Industries," article-----	2908
Italian Embassy, Alberto Rossi, Commercial Minister, letter of transmittal dated June 12, 1970, with memorandum, to Robert M. Beaudry, Country Director, Department of State, forwarded by Department of State-----	1742
Italy-America Chamber of Commerce, footwear importers group, Gunter von Conrad, counsel, brief-----	1664
J. B. Hargrave Naval Architects, Inc., J. B. Hargrave, president, letter dated May 13, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means-----	2646
John R. Christensen Associates, John R. Christensen, letter dated June 25, 1970, to the Committee on Ways and Means-----	2783
Johnson, Howard C., on behalf of certain domestic manufacturers of knotted fish netting and fish nets, statement-----	1597
Jones, Felix C., president, United Cement, Lime & Gypsum Workers International Union, statement-----	4058
Jones, Frank A., Jr., executive vice president-finance, Cook Industries, Inc., letter dated June 8, 1970, to Chairman Mills-----	2643
Jorgeson, Charles M., general manager, B. F. Goodrich Co., textile division, statement-----	1613
Kahn, Max L., on behalf of woven label manufacturers of the United States of America, letter dated May 20, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means-----	1603
Keith, Hon. Hastings, a Representative in Congress from the State of Massachusetts, Letter, dated June 12, 1970, to Chairman Mills-----	3899
Statement-----	2427
Kellogg Co., Leslie C. Borsum, sales manager, feed sales division, statement-----	3188
Klamm, Ron, managing director, California Fig Institute ; manager, California Dried Fig Advisory Board, statement-----	4375
Knowles, Hon. Warren P., Governor, State of Wisconsin, letter dated June 4, 1970, to Chairman Mills-----	3174
Kohler, Jay K., president, Farmers Production Credit Association, letter dated June 19, 1970-----	4400
Kohnstamm, Paul L., president, H. Kohnstamm & Co., Inc., letter dated May 20, 1970, to Chairman Mills-----	3633
Korea, Republic of, memorandum dated June 9, 1970, forwarded by letter of transmittal from the U.S. Department of State-----	1580
Kornegay, Horace R., president, Tobacco Institute, Inc., statement-----	2820
Kruchten, Kenneth R., director of marketing, Cold Spring Granite Co., letter dated June 8, 1970, to Chairman Mills, with attachment-----	4154
Kust, Leonard E., vice president and general counsel, Westinghouse Electric Corp., statement-----	2636
Leaf Tobacco Exporters Association, Inc. Malcolm B. Seawell, executive secretary, letter dated June 11, 1970, to the Committee on Ways and Means-----	2825
Leigh, Monroe, counsel, international policy committee, Aluminum Association, statement-----	3827
Lenher, Samuel, vice president, E. I. du Pont de Nemours & Co., letter dated June 3, 1970, to Chairman Mills (with enclosure)-----	1605
Lennon, Hon. Alton, a Representative in Congress from the State of North Carolina, letter dated June 17, 1970, to Chairman Mills-----	1549

XXXIII

Levine, G. B., chairman, legislative committee, California Council for International Trade:	Page
Letter dated May 15, 1970, to Chairman Mills, with attachment.....	3292
Letter dated June 17, 1970, to Chairman Mills, with attachment.....	2633
Liebenow, Robert C., president, Corn Refiners Association, Inc., letter dated June 9, 1970, to Chairman Mills.....	4396
Loebbecke, Ernest J., president California State Chamber of Commerce, letter of transmittal dated April 16, 1970, to Chairman Mills, with enclosures	1701
Low, Charles H., executive committee member, National Board of Fur Farm Organizations, statement.....	3078
Ludlow Corp., J. C. Mahoney, vice president, letter dated May 20, 1970, to Chairman Mills.....	1611
Maestro Import Industries, Inc., Donald H. Adler, president, letter dated May 13, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3305
Magdanz, Don F., executive secretary-treasurer, National Livestock Feeders Association:	
"The Truth About Beef Supplies and Beef Prices," document dated April 8, 1970.....	3718
"The Truth About Processed Beef Supplies and Prices," sequel to document of April 8, 1970.....	3704
Magnus, W. R., president, Exportadora, Inc., of Illinois, letter, dated June 22, 1970, to Chairman Mills.....	2645
Mahoney, J. C., vice president, Ludlow Corp., letter dated May 20, 1970, to Chairman Mills.....	1611
Mahoney, John H., senior vice president, Seaboard World Airlines, letter dated June 11, 1970, to Chairman Mills.....	1729
Man-Made Fiber Producers Association, Claude Ramsey, chairman, supplemental memorandum.....	1477
Mann, Hon. James R., a Representative in Congress from the State of South Carolina.....	1577
Mann, Thomas C., president, Automobile Manufacturers Association, Inc., letter dated May 20, 1970, to Chairman Mills.....	1728
Marks Specialties, Inc., Harry L. Marks, chairman of the board, statement.....	2759
Marshall, V. Adm. William J., U.S.N. (ret.), president, Bourbon Institute, statement	2811
Martin, George B., Jr., member, Memphis (Tenn.) Regional Export Expansion Council, letter, dated June 3, 1970, to Chairman Mills.....	2646
Mathias, Hon. Bob, a Representative in Congress from the State of California, letter dated June 12, 1970, to Chairman Mills, with enclosures.....	2257
Mattutat, F. M., president, R. B. Willson, Inc., letter dated June 15, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	4252
May, Hon. Stephen, mayor, city of Rochester, N.Y., statement.....	1316
Mazzocchi, Anthony, citizenship-legislative director, Oil, Chemical and Atomic Workers International Union, AFL-CIO, statement.....	4151
McAllen (Tex.) Industrial Board, Frank Birkhead, Jr., manager, statement	3293
McDonnell Douglas Corp., Donald W. Douglas, Jr., corporate vice president for administration, statement.....	3841
McIntyre, Hon. Thomas J., a U.S. Senator from the State of New Hampshire, statement.....	2166
McMillan, Hon. John L., a Representative in Congress from the State of South Carolina, statement.....	3643
McPherson, R. C., president, Dana Corp., letter, dated June 1, 1970, to Chairman Mills, with attachment.....	2639
Mead, Robert E., president, Independent Petroleum Association of America, statement (submitted by Minor Jameson, executive vice president) ..	2289
Meat Importers Association, John E. Ward, chairman, statement (submitted by Donn N. Bent).....	3697
Meltzer, Yale L., assistant director of research, First Devonshire Corp. (New York, N.Y.), statement.....	3637
Memphis (Tenn.) Regional Export Expansion Council, George B. Martin, Jr., member, letter, dated June 3, 1970, to Chairman Mills.....	2646

Mercker, A. E., executive secretary, Vegetable Growers Association of America, statement.....	Page 4390
Metal Masters of Baltimore, Md., H. M. Weiss, president, extension of remarks	1919
Michigan Sugar Co., Ernest Flegenheimer, president, statement, forwarded by Congressman James Harvey of Michigan.....	2395
Milwaukee Sausage Co., Seattle, Wash., Martin B. Rind, president, statement	3732
(Greater) Minneapolis Chamber of Commerce, Orin T. Hanson, manager, agricultural and world trade department, statement.....	3635
Mitchell, George F., Washington, D.C., letter dated June 13, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means, with attachments.....	4401
Mitchell, William W., president, First National Bank of Memphis, letter, dated June 10, 1970, to Chairman Mills.....	2646
Mitchum Co., Robert E. Dowland, vice president, letter, dated June 3, 1970, to Chairman Mills.....	2645
Mitsuboshi Cutlery, New York, Inc., H. William Tanaka counsel, statement	1957
Mogle J. A., chairman, foreign trade committee, Fine & Specialty Wire Manufacturers' Association, statement.....	1954
Moore, Jesse G., on behalf of Cherokee Products Co., letter dated June 1, 1970, forwarded by Congressman Landrum of Georgia.....	4339
Moore, Larry, Suamico, Wis., statement.....	3192
Morano, Hon. Albert P., on behalf of Cheney Bros., letter dated April 13, 1970, to Chairman Mills.....	1614
Morss, Elliott R., Taxation With Representation, statement.....	2607
Morton Frozen Foods Division, ITT Continental Baking Co., George R. Vail, president, statement.....	3733
National Association of Export Management Companies, Arthur A. Singer, president: Letter dated June 16, 1970, to Chairman Mills.....	2605
Letter to Chairman Mills.....	4415
National Association of Glue Manufacturers, Inc., W. R. O'Connor, chairman, tariff committee, letter, dated June 9, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	2784
National Board of Fur Farm Organizations: Henderson, David W., executive secretary statement.....	3073
Low, Charles H., executive member, statement.....	3078
National Building Granite Quarries Association, Inc., Kneeland Swenson, secretary, letter dated June 5, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	4152
National Coal Association, Brice O'Brien, vice president, letter dated June 12, 1970, to Chairman Mills, with enclosures.....	2327
National Coffee Association, George E. Boecklin, president, letter, dated May 13, 1970, to Chairman Mills, with attachment.....	3960
National Council of Farmer Cooperatives, Robert N. Hampton, director of marketing and international trade, statement.....	4269
National Council of Jewish Women, Mrs. Leonard H. Weiner, national president, statement.....	1744
National Council of Music Importers, Norman R. Sackheim, president, letter dated June 10, 1970, to Chairman Mills, with attachment.....	3048
National Electrical Manufacturers Association, Bernard H. Falk, vice president, government and membership services, letter dated June 16, 1970, to Chairman Mills, with attachments.....	2941
National Farmers Organization, Harry L. Graham, legislative representative, supplemental statement entitled "The United States and the I.G.A."	994
National Federation of Independent Business, Edward Wimmer, vice president, letter of transmittal dated May 20, 1970, with enclosures, to Chairman Mills.....	1731
National Foreign Trade Council, Robert T. Scott, supplemental memorandum	2601
National Grange, John W. Scott, master, statement.....	4254

National Livestock Feeders Association, Don F. Magdanz, executive secretary-treasurer:

"The Truth About Beef Supplies and Beef Prices," document dated April 8, 1970.....	Page 3718
"The Truth About Processed Beef Supplies and Prices," sequel to document of April 8, 1970.....	3714
Hadley, G. L., president, statement.....	3704
National Semiconductor Corp., C. E. Sporck, president, statement.....	3296
National Soybean Processors Association, statement.....	4227
Nation-Wide Committee on Import-Export Policy, O. B. Strackbein, president:	
Trade Balances: F.o.b. Versus C.i.f., paper.....	889
Trade Statistics—A Continuing Distortion, committee paper.....	892
Ness Industries, Inc., Oscar Pieper, statement.....	3302
New York Chamber of Commerce, Thomas N. Stainback, executive vice president, statement.....	1704
Nichols, Hon. Bill, a Representative in Congress from the State of Alabama, statement.....	1615
Nissen, Clyde T., executive director, Builders Hardware Manufacturers Association, statement.....	3812
Nutt, Victor L., Washington counsel, Gulf + Western Industries, Inc., letter, dated June 15, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3295
North American Rockwell Corp., Robert C. Wilson, president, commercial products group, statement.....	1608
Nosawa, New York, Inc., H. William Tanaka, counsel, statement.....	1957
O. Hommel Co., E. M. Hommel, president, letter, dated May 18, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3640
O'Brien, Brice, vice president, National Coal Association, letter dated June 12, 1970, to Chairman Mills, with enclosures.....	2327
O'Connor, W. R., chairman, tariff committee, National Association of Glue Manufacturers, Inc., letter, dated June 9, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	2784
Oddy, Charles F., secretary-treasurer, Optical Manufacturers Association, letter dated May 20, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3041
Oil, Chemical, and Atomic Workers International Union:	
Grospron, A. F., president, statement.....	3626
Mazzochi, Anthony, citizenship-legislative director, statement.....	4151
Ogburn, Tom, president, Wilkes (N.C.) Chamber of Commerce, letter of transmittal dated May 11, 1970, to Chairman Mills, with statement.....	1710
Ogilvie, Hon. Richard B., Governor, State of Illinois, statement.....	1694
O'Keefe, Brian T., assistant comptroller, Chrysler Corp., letter, dated May 27, 1970, to Chairman Mills.....	2637
Olsen, Hon. Arnold, a Representative in Congress from the State of Montana, letters, dated May 15 and 22, 1970, with attachments, to Chairman Mills.....	3177, 3178
Olson, Iver M., vice president, American Footwear Manufacturers Association, letter dated June 17, 1970, to Chairman Mills, with enclosures.....	2036
Optical Manufacturers Association, Charles F. Oddy, secretary-treasurer, letter dated May 20, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	3041
Ostrander, F. Taylor, Chamber of Commerce of the United States, speech delivered to Chamber of Commerce, Buffalo, N.Y., May 2, 1970.....	1062
Pacific Car & Foundry Co., John S. Voorhees, counsel, statement.....	3309
Pacific Coast Coffee Association, Jack B. Berard, president:	
Letter, dated May 25, 1970, to Chairman Mills.....	3964
Letter, dated June 26, 1970, to Chairman Mills, with attachments.....	3964
Palmer, John D., president Tobacco Associates, Inc., statement and attachment.....	2823
Parker, George M., international president, American Flint Glass Workers' Union of North America, statement.....	4061
Parker, H. R., secretary, Candle Manufacturers Association, letter, dated May 26, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means.....	2785

XXXXVI

Patterson, Huberta M. secretary, West Virginia League, West Virginia, Pennsylvania, Ohio & Indiana Glass Workers' Protective Leagues, statement	Page 4072
Perry, Wiley J., Jr., chairman, import study group, Cast Iron Soil Pipe Institute:	
Letter dated April 9, 1968, to Secretary of the Treasury Henry H. Fowler	1816
Letter dated April 17, 1970, to Secretary of the Treasury David M. Kennedy	1818
Petrochem Group, David S. Bruce, chairman, and Chemco Group, Morse G. Dial, Jr., chairman, statement	2362
Philadelphia Textile Association, Robert E. Putney, Jr., president, letter dated May 27, 1970, to Committee on Ways and Means	1603
Philbin, Hon. Philip J., a Representative in Congress from the State of Massachusetts, letter, dated June 9, 1970, to Chairman Mills	3177
Pieper, Oscar, Ness Industries, Inc., statement	3302
Pin, Clip and Fastener Association, Straight Pin and Safety Pin Divisions, Myron Solter, Counsel, statement	3873
Piquet, Dr. Howard S., Washington, D.C., article entitled, Trends in International Trade of the United States	2686
Pressure Products Industries, Robert J. Senn, sales manager, letter, dated May 22, 1970, to John Martin, Jr., chief counsel, Committee on Ways and Means	2559
Putney, Robert E., Jr., president, Philadelphia Textile Association, letter dated May 27, 1970, to Committee on Ways and Means	1603
Quillen, Hon. James H., a Representative in Congress from the State of Tennessee, letter, dated June 15, 1970, to Chairman Mills	3620
R. B. Willson, Inc., F. H. Mattutat, president, letter dated June 15, 1970, to John M. Martin, Jr., chief counsel, committee on Ways and Means	4252
Ramsey, Claude, chairman, Man-Made Fiber Producers Association, supplemental memorandum	1477
Reading, Pa., city of, Hon. R. H. Yarnell, mayor, resolution re American selling price	3640
Reese, R. S., chairman pro tem., U.S. Earthenware Dinnerware Emergency Committee, statement	4066
Reimann, Bernard, president, Tie Fabrics Importers' Association	1548
Reinhard, Frank G., president, E. D. Magnus & Associates, Inc., letter, dated May 26, 1970, to Chairman Mills	2644
Reynolds Metals Co., Maxwell Caskie, vice president, letter dated June 26, 1970, to Chairman Mills	3831
Richmond, Howard, president, Crompton Co., Inc., statement	1611
Rind, Martin B., president, Milwaukee Sausage Co., Seattle, Wash., statement	3732
Roberts, Howard E., president, Auto Air Accessories, Inc., letter, dated June 9, 1970, to Chairman Mills	2644
Robison, Hon. Howard W., a Representative in Congress from the State of New York, statement	2167
Rochester (N.Y.), City of, Hon. Stephen May, mayor, statement	1316
Ross, Mrs. Jean, chairman, legislative program committee, American Association of University Women, statement	1746
Ross, W. J., comanager, Ross-Wells, statement	3191
Rossi, Alberto, Commercial Minister, Italian Embassy, letter of transmittal dated June 12, 1970, with memorandum, to Robert M. Beaudry, country director, Department of State, forwarded by Department of State	1742
Rutledge, Robert W., executive vice president, Florida Citrus Mutual, brief in behalf of the Florida citrus growers	4309
Ruttenberg, Stanley H., president, Stanley H. Ruttenberg & Associates, Inc., letter of transmittal to Chairman Mills, dated June 16, 1970, forwarding supplemental statement of Amalgamated Clothing Workers Union of America and the International Ladies Garment Workers Union	1271
Sackheim, Norman R., president, National Council of Music Importers, letter dated June 10, 1970, to Chairman Mills, with attachment	3048
Saylor, Hon. John P., a Representative in Congress from the State of Pennsylvania, statement	1574

XXXVII

Schachter, Leon B., vice president and director, Washington office, Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO), statement	Page 3961
Schaffer, Kurt, vice president-administration, Boss Manufacturing Co., statement	3308
Scales, Harold, editor and publisher, American Fur Breeder, statement	3181
Schutt, Mrs. William E., Clarksville, Va., letter forwarded by Hon. W. C. "Dan" Daniel	4414
Schiffi Lace & Embroidery Manufacturers Association, I. Leonard Seiler, executive director, statement	1582
Scott, John W., master, National Grange, statement	4254
Scott, Robert T., National Foreign Trade Council, supplement memorandum	2601
Seaboard World Airlines, John H. Mahoney, senior vice president, letter dated June 11, 1970, to Chairman Mills	1729
Seawell, Malcolm B., executive secretary, Leaf Tobacco Exporters Association, Inc., letter, dated June 11, 1970, to the Committee on Ways and Means	2825
Seiler, I. Leonard, executive director, Schiffi Lace & Embroidery Manufacturers Association, statement	1582
Senn, Robert J., sales manager, Pressure Products Industries, letter, dated May 22, 1970, to John Martin, Jr., chief counsel, Committee on Ways and Means	2559
Shapiro Bros. Shoe Co., Inc., Arthur N. Shapiro, letter dated May 22, 1970, forwarded by Congressman William D. Hathaway of Maine	2168
Shell Oil Co., Paul F. Deisler, Jr., vice president, manufacturing, transportation and supplies, and marketing, letter, dated June 25, 1970, to Chairman Mills, with statement	2280
Sherwin Williams Chemicals, division of the Sherwin-Williams Co., G. L. Tickner, eastern sales manager, statement	3632
Shostak, S. Richard, Los Angeles, Calif., article, "United States Textile Articles Assembled Abroad Should be Excepted from Quotas"	3312
Sikes, Hon. Robert F. L., a Representative in Congress from the State of Florida, two statements:	
H.R. 15052	1568
Textiles	1569
Singer, Arthur A., president, National Association of Export Management Companies:	
Letter dated June 16, 1970, to Chairman Mills	2605
Letter to Chairman Mills	4415
Sisk, Hon. B. F., a Representative in Congress from the State of California, letter, dated May 25, 1970, to Chairman Mills	4390
Siverd, C. D., president and chief executive officer, American Cyanamid Co., statement	3630
Smith, Hon. Preston, Governor of the State of Texas, prepared statement submitted by Congressman George H. Mahon of Texas	2181
Snappe, E. A., Jr., chairman, tariff committee, Card Clothing Manufacturers Association, statement	1589
Solter, Myron, Counsel, Pin, Clip and Fastener Association, Straight Pin and Safety Pin Divisions, statement	3873
Sorensen, Knud, president, Danish American Trade Council, statement	1740
South Dakota, State of, Hon. Frank L. Farrar, Governor, letter dated June 1, 1970, to Chairman Mills	3730
Spain-United States Chamber of Commerce, Inc., Mariano Baguena, executive secretary, statement	1736
Sporck, C. E., president, National Semiconductor Corp., statement	3296
Sporting Arms and Ammunition Manufacturers Institute, Robert C. Zimmer, counsel, statement	2786
Stainback, Thomas N., executive vice president, New York Chamber of Commerce, statement	1704
Standard Parts Co. of Houston, A. C. Tabbert, vice president, letter, dated June 8, 1970, to Chairman Mills	2643
Statham, Robert R., taxation and finance manager, Chamber of Commerce of the United States, statement	2602
Status Shoe Corp., J. Werner Gillon, president, statement	2169

XXXVIII

Steinberg, David J., secretary and chief economist, Committee for a National Trade Policy :	
Wanted for U.S. Trade Policy : A single Baton and a Certain Trumpet (speech before Newark Rotary Club, June 2, 1970)-----	Page 879
U.S. on a Collision Course in Trade Policy (speech before the Milwaukee World Trade Club, Oct. 2, 1969)-----	874
Stevens, Robert Warren, associate professor of international business, Graduate School of Business Administration, Indiana University, statement-----	1747
Stewart, Eugene L., general counsel, Trade Relations Council of the United States, letter dated June 19, 1970, to Chairman Mills-----	3673
Stitt, Nelson A., director, United States-Japan Trade Council :	
Testimony-----	1066, 1127
Membership list-----	1131
Registration statement filed with Department of Justice, pursuant to Foreign Agents Registration Act of 1938-----	1143
Statement of Congressman John W. Byrnes (Wis.), a Member of the Committee on Ways and Means, with reference to testimony of Mr. Stitt-----	1126
Interrogation by Congressman John W. Byrnes (Wis.) of Mr. Stitt-----	1155
"A Comparison of Trade and Economic Data" (pamphlet)-----	1118
"How Much Would Textile Quotas Cost the United States" (pamphlet)-----	1085
Letter, dated May 26, 1970, to Chairman Mills-----	1110
Invitation to membership-----	1161
Stokely-Van Camp, Inc., Alfred J. Stokely, president, letter, dated June 15, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means-----	4397
Strackbein, O. B., president, Nation-Wide Committee on Import-Export Policy :	
Trade Balance : F.o.b. Versus C.i.f., paper-----	889
Trade Statistics—A Continuing Distortion, committee paper-----	892
Strickland, W. G., secretary-general manager, Florida Fresh Citrus Shippers Association, letter dated June 3, 1970, to Robert W. Rutledge, executive vice president, Florida Citrus Mutual-----	4316
Stringari, Arthur M., legal counsel, Fur Dresser's Bureau of America, statement-----	3185
Struning, William C., (Pan-American Coffee Bureau) New York, N.Y., letter, dated May 28, 1970, to Chairman Mills, with attachments-----	3900
Studenroth, Carl, vice president, International Molders & Allied Workers Union, statement-----	1933
Sullivan J. A., Jr., chairman, Impression Fabrics Group, letter dated June 5, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means-----	1591
Swenson, Kneeland, secretary, National Building Granite Quarries Association, Inc., letter dated June 5, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means-----	4152
Swiss Union of Commerce and Industry, Michael P. Daniels, Washington counsel, statement, forwarded by Swiss Embassy through Department of State-----	3622
Symington, Lloyd, counsel, Committee of Producers of Ferroalloys and Related Products, letter dated June 26, 1970, to Chairman Mills, with statement-----	1922
Tabbert, A. C., vice president, Standard Parts Co. of Houston, letter, dated June 8, 1970, to Chairman Mills-----	2643
Tanaka, H. William, counsel :	
Ajinomoto Co. of New York, Inc., statement-----	3621
Mitsuboshi Cutlery, New York, Inc., statement-----	1957
Nosawa, New York, Inc., statement-----	1957
Toshiba America, Inc., statement-----	3035
Taxation With Representation, Elliott R. Morss, statement-----	2607
Taylor, Edward A., executive director, citrus department, Florida Citrus Commission, letter dated May 28, 1970, to Chairman Mills-----	4316
Taylor, Walter, Stafford Springs, Conn., statement-----	3189

XXXIX

Tea Association of the United States of America, Inc., Richard M. Field, president, letter dated June 19, 1970, to Chairman Mills-----	Page 4401
Teper, Lazare, director, research department, International Ladies' Garment Workers' Union, letter, dated June 8, 1970, to chairman Mills, with statement-----	3218
Texas, State of, Hon. Preston Smith, Governor, prepared statement submitted by Congressman George H. Mahon of Texas-----	2181
Thompson, William P., stated clerk, United Presbyterian Church in the United States of America, statement-----	1744
Tickner, G. L., eastern sales manager, Sherwin Williams Chemicals, Division of the Sherwin-Williams Co., statement-----	3632
Tie Fabrics Importers' Association, Bernard Reimann, president, statement-----	1548
Tobacco Associates, Inc., John D. Palmer, president, statement and attachment-----	2823
Tobacco Institute, Inc., Horace R. Kornegay, president, statement-----	2820
Townsend, Lynn, on behalf of the Emergency Committee for American Trade, article entitled "Digest of Import Duties for Motor Vehicles Levied by Selected Countries"-----	760
Toby Berman Corp., A. T. Berman, letter dated May 20, 1970, to John M. Martin, Jr., chief counsel, Committee on Ways and Means-----	1568
Tool & Stainless Steel Industry Committee, statement-----	1774
Toshiba America, Inc., H. William Tanaka, counsel-----	3035
Tozzoli, Guy F., secretary General, World Trade Centers Association, statement-----	1700
Trade Relations Council of the United States, Eugene L. Stewart, general counsel, letter dated June 19, 1970, to Chairman Mills-----	3673
Trigg, Eric A., president, Alcan Aluminum Corp., statement-----	3831
Union Carbide Corp., F. Perry Wilson, president, letter to Chairman Mills, with attachment-----	2646
United Automobile, Aerospace & Agricultural Implement Workers of America (UAW), Leonard Woodcock, president, statement with attachments-----	1711
United Cement, Lime & Gypsum Workers International Union, Felix C. Jones, president, statement-----	4058
United Mine Workers of America, Joseph P. Brennan, director of research and marketing, statement-----	2366
United Presbyterian Church in the United States of America, William P. Thompson, stated clerk, statement-----	1744
United States-Japan Trade Council, Nelson A. Stitt, director:	
Testimony-----	1066, 1127
Membership list-----	1131
Registration statement filed with Department of Justice, pursuant to Foreign Agents Registration Act of 1938-----	1143
Statement of Congressman John W. Byrnes (Wis.), a Member of the Committee on Ways and Means, with reference to testimony of Mr. Stitt-----	1126
Interrogation by Congressman John W. Byrnes (Wis.) of Mr. Stitt-----	1155
"A Comparison of Trade and Economic Data" (pamphlet)-----	1118
"How Much Would Textile Quotas Cost the United States" (pamphlet)-----	1185
Letter, dated May 26, 1970, to Chairman Mills-----	1110
Invitation to membership-----	1161
U.S. Wood Screw Service Bureau, George P. Byrne, Jr. secretary, letter dated June 5, 1970, to Chairman Mills, with attachments-----	3815
Upholstery & Decorative Fabrics Association of America, Peter C. Apel, president, letter dated June 23, 1970, to Chairman Mills-----	1603
U.S. Earthenware Dinnerware Emergency Committee, R. S. Reese, chairman pro tem, statement-----	4066
United States-Mexico Border Cities Association, Donald W. Holmberg, secretary, letter dated May 25, 1970, to the Committee on Ways and Means, with statements-----	3254
Vail, George R., president, Morton Frozen Foods Division, ITT Continental Baking Co., Inc., statement-----	3733
Varel Manufacturing Co., Jim Walker, controller, letter to Chairman Mills-----	2638

Vegetable Growers Association of America, A. E. Mercker, executive secretary, statement-----	Page 4390
Volco, Inc., H. L. Hendricks, president, letter dated May 16, 1970, forwarded by Congressman Graham Purcell of Texas-----	2177
Volume Footwear Retailers of America, Edward Atkins, executive vice president, supplementary statement-----	2088
Voorhees, John S., counsel:	
Business Equipment Manufacturers Association-----	3237
Pacific Car & Foundry Co., statement-----	3309
Walker, Jim, controller, Varel Manufacturing Co., letter to Chairman Mills-----	2638
Ward, John E., chairman, Meat Importers Association, statement (submitted by Donn E. Bent)-----	3697
Ward, Oscar, assistant-manager, Furriers Joint Council of New York, letter dated June 18, 1970, to Chairman Mills, with enclosure-----	3167
Washington, State of, Hon. Daniel J. Evans, Governor, letter dated May 27, 1970, to Chairman Mills (with enclosure)-----	1696
Weiner, Mrs. Leonard H. national president, National Council of Jewish Women, statement-----	1744
Weiss, H. M., president, Metal Masters of Baltimore, Md., extension of remarks-----	1919
Welch Allyn, Inc., C. M. Evans, president, Skaneateles Falls, New York, letter-----	3042
Welded Steel Tube Institute, statement submitted by Paul Carlson-----	1935
West Coast Metal Importers Association, Werner F. Chilton, president, letter dated June 10, 1970, to Chairman Mills-----	1920
West Virginia, Pennsylvania, Ohio, & Indiana Glass Workers' Protective Leagues, Huberta M. Patterson, secretary, West Virginia League, statement-----	4072
Western Oil & Gas Association, statement-----	2278
Westinghouse Electric Corp., Leonard E. Kust, vice president and general tax counsel, statement-----	2636
Wilkes (North Carolina) Chamber of Commerce, Tom Ogburn, president, letter of transmittal dated May 11, 1970, to Chairman Mills, with statement-----	1710
Wilson, F. Perry, president, Union Carbide Corp., letter to Chairman Mills, with attachment-----	2646
Wilson, Robert C., president, commercial products group, North American Rockwell Corp., statement-----	1608
Wimmer, Edward, vice president, National Federation of Independent Business, letter of transmittal dated May 20, 1970, with enclosures, to Chairman Mills-----	1731
Window Glass Cutters League of America, Harry W. Baughman, international president-----	4063
Winters, Elmer C., acting chairman, Wyoming-Nebraska Regional Export Expansion Council, letter, dated June 9, 1970, to Chairman Mills-----	2633
Wisconsin, State of, Hon. Warren P. Knowles, Governor, letter dated June 4, 1970, to Chairman Mills-----	3174
Woodcock, Leonard, president, United Automobile, Aerospace & Agricultural Workers of America (UAW), statement with attachments-----	1711
World Trade Centers Association, Guy F. Tozzoli, secretary general, statement-----	1700
Woven Label Manufacturers of the United States of America, Max L. Kahn, letter dated May 20, 1970, to John M. Martin, chief counsel, Committee on Ways and Means-----	1603
Wyoming-Western Nebraska Regional Export Expansion Council, Elmer C. Winters, acting chairman, letter, dated June 9, 1970, to Chairman Mills-----	2633
Zelek, J. A., vice president-general manager, pigment and dye department, Harshaw Chemical Co., letter, dated May 20, 1970, to the Committee on Ways and Means-----	3635
Zimmer, Robert C., counsel, Sporting Arms and Ammunition Manufacturers Institute, statement-----	2786

TARIFF AND TRADE PROPOSALS

TUESDAY, JUNE 9, 1970

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m. pursuant to notice, in the committee room, Longworth House Office Building, Hon. Sam Gibbons, presiding.

Mr. GIBBONS. Good morning, ladies and gentlemen. The committee will come to order. Our first witness is the Honorable John H. Dent, a Member of Congress from Pennsylvania. Mr. Dent is not here. We will catch him later.

Mr. Ken Plaisted, would you and Mr. Woodley come forward and any other persons you might have with you. Will you identify yourselves for the record. We shall be glad to hear from you.

STATEMENT OF HON. HAROLD O. LOVRE, WASHINGTON COUNSEL, KEN PLAISTED, GENERAL COUNSEL, AND ALBERT WOODLEY, NATIONAL BOARD OF FUR FARM ORGANIZATIONS; ACCOMPANIED BY DAVE HENDERSON, EXECUTIVE SECRETARY

Mr. LOVRE. My name is Harold O. Lovre, Washington counsel for the National Board of Fur Farm Organizations. Perhaps a word of explanation is necessary first. In addition to Mr. Plaisted the general counsel who will testify and also Albert Woodley, president of Albert Woodley Advertising Agency, we have at the table Dave Henderson who is the executive secretary of the national board and who appeared before this committee 2 years ago. He is at the committee table in order to assist if necessary on any technical questions.

In addition, the national board has in the committee room Mr. Mack Bauer, the president of the national board; Roy Harmon who is the chairman of the national policy committee, together with about 12 other mink ranchers from the country, including Mr. McArthur, who will appear as the last witness.

With that introduction, I would like to call on Mr. Plaisted first to make the presentation on behalf of the national board.

STATEMENT OF KEN PLAISTED

Mr. PLAISTED. Thank you, Mr. Lovre.

Mr. Chairman, members of the committee, my name is Kenneth M. Plaisted. I am the general counsel for the National Board of Fur Farm Organizations, Inc., a Minnesota Cooperative, with its national offices

(3051)

located at 152 West Wisconsin Ave., Milwaukee, Wis. Our association is comprised of the 52 State, regional, and marketing organizations, the approximately 3,000 members who are farmers engaged in the raising of domestic mink.

Bearing in mind that one of the initial purposes of these hearings is to consider the President's foreign trade proposals are set forth in the Trade Act for 1969, we would like first to direct our comments to the suggestions of the President and then proceed to address our remarks to other legislation which is pending before this committee and which is more directly related to the immediate problem confronting the domestic mink farmer as a result of the unregulated flow of imports of mink pelts entering the United States.

Very briefly, the Trade Act of 1969, as proposed by the Administration, simply would not afford our industry any meaningful relief. In fact, the bill would appear to be designed to lower any existing trade restrictions. It is true that the President has proposed certain amendments to the escape clause law which are apparently intended to provide an industry that's threatened with serious injury resulting from imports with a somewhat easier task of proving its case before the Tariff Commission. We refer specifically to that section of the President's bill which would require the mink industry to show that imports were the primary cause of that industry's problems rather than the present law which requires that the industry show that imports were the major cause of serious injury, or a threat of serious injury, to the complaining industry. Because of the interrelated nature of the economics of any industry, and this is certainly true with regard to the mink farming industry, it would seem to be realistically impossible to sort out and identify any one particular economic factor as a primary or major cause of a given industry's economic ills. In fact, we can see little distinction, if any, in terms of definition between major cause and primary cause and, as we view it, the President's proposals to amend the escape clause law in this particular area would be of no benefit to our industry whatsoever.

Of the various proposals pending before this committee to amend the escape clause law, we do support and strongly urge the committee, Mr. Chairman, to adopt the proposals outlined in your bill, H.R. 16920, relating to the amendment of the escape law procedures whereby the domestic industry would be required to show that imports were a substantial cause of serious injury or the threat thereof. It would seem to us that your proposal in this regard is much more realistic insofar as the problems of any industry are concerned, and is a test which would permit the Tariff Commission to study the effects that imports may have on a given industry in terms of that industry's broader economic problems. As we have said we will support this amendment.

The President's trade bill, together with his message to the Congress which accompanies that bill is indeed very disheartening to the American mink farmers. We find nothing in the bill, or in the President's message, which would give us any hope that the President is seriously concerned with the economic well-being of an industry such as ours which finds itself in a position of attempting to compete, under conditions of unrestricted imports with foreign producers whose costs are obviously lower than are the costs of our members. We must, therefore, turn again to this committee in our plea for some kind of reasonable

regulation over the import of mink pelts that are entering the United States.

We will not burden your committee this morning, Mr. Chairman, with the recitation of figures from any lengthy statistical tables. This committee was amply supplied by the U.S. Tariff Commission with all current data in the Commission's report to the committee dated March 1970 and we have appended most of that information to this statement for your ready reference. In addition, we have attached a schedule of domestic mink pelt prices for the years 1965 through 1970 together with the corresponding prices for the imported products.

I, in fact, did note in reviewing the Commission's report submitted to this committee it made reference to the 1959 escape clauses and reported to the committee that the Commission in that year did not find imports entering into the United States in such a quantity as to cause serious injury. I do not know why the Commission went back 10 years ago and referred to a report on the subject matter that exists today.

I also think it was interesting to note that maybe the committee members are not aware but in 1968 the President ordered a section 632 investigation of the mink industry and even though the President's letter in making the request to the Commission requested specifically to make a finding or recommendation as to whether or not imports were being imported at that time to such an extent as to cause injury, the Commission did not even in its 1968 report draw any conclusions or make any recommendations on that score.

In view of the limited time afforded witnesses from all industries, we will not unduly burden your committee with a repetition of the testimony and information submitted to your committee by this organization by Mr. David W. Henderson on June 26, 1968, at the time that the committee was holding hearings on trade legislation in that year. Suffice to say at this point of time and it is not pleasant to report it, that the predictions that were made by our industry's representatives before this committee in 1963, and before the Tariff Commission in that same year, which were to the effect that if restrictions were not placed on the free flow of imports of mink pelts our industry would be in serious jeopardy, have all come true in all too vivid a form. The mink pelt market today in the United States is in complete disarray. In 1969 our members received an average of \$16.33 for each pelt that they had produced in the preceding year. In this year, 1970, on the pelts sold to this date, which incidentally constitute approximately 80 percent of the 1969 crop, our members have received an average of only \$11.64 for all pelts sold at auction.

As Mr. Walter Taylor of Sommers, Conn., points out in his statement filed with this committee on this same date, it is important to realize that these auction sales prices of which we speak, are gross sales prices and do not represent the net take-home to our member rancher. Sales costs must be deducted, which costs include auction commission costs of 5.25 percent; association dues, the bulk of which are used for consumer advertising, 2.25 percent, and in addition, for those mink pelts that are sold dressed, an additional \$1.75 per pelt charge is made.

Our industry simply cannot survive in any form under these conditions. As the report of the U.S. Tariff Commission, directed to this committee, dated March 1970, indicates, in the late 1950's, there were

approximately 6,000 mink ranchers in the United States. In 1967, as the report indicates, there were about 3,300 ranchers. Based on the most reliable estimates that we can make today, it is believed that there are now only approximately 2,000 farmers in the United States who are engaged in the raising of domestic mink—and this number is dwindling daily in the face of a steadily deteriorating condition of the market.

As further reported by the Tariff Commission in its March 1970 report, in 1968 U.S. ranchers produced 6.5 million mink pelts. By 1969 this number had decreased to 5.5 million pelts and, again based on our best estimates, it is questionable whether our members will be producing in excess of 4 million pelts in 1970.

Contrast this picture, if you will, with the condition of the mink farming industry in the Scandinavian countries and it becomes very evident why we must have some form of regulation of imports of mink pelts into the United States. According to the reliable Scandinavian publication *Norsk Pelsdyrbldsf* in its February 1969 edition, the Scandinavian production of ranch raised mink is reported to continue to move upward from 4.4 million pelts in 1961, to 9.3 million pelts in 1967, and to 9.5 million pelts in 1969.

Based on reliable information, our best estimates are that the Scandinavian production has not been reduced in 1970 and there are even some indications that there may be a slight increase in their overall production this year.

We think it is generally conceded that due to labor costs and costs of feed ingredients, U.S. ranchers costs of production are considerably higher than those of the Scandinavian producers, however, while we do not have what we would consider to be reliable statistics as to the average costs of producing a mink, either in the United States or in the exporting countries, one need not have to be an expert in economics to readily conclude, based on the declining production in the United States, as contrasted with the increasing production in the Scandinavian countries, that the American producer is being forced out of the marketplace because he cannot compete on a cost basis.

We would look back today to the year 1966 when imports of mink skins into the United States reached an all-time high of 5.7 million, an increase of almost 1 million skins from the previous year. When a sizable percentage of those imports had not cleared the market by the end of 1966 the carryover had a depressing effect on the world mink market, and particularly in the United States the price market broke in the following year, 1967, to the extent that the rancher was only receiving a gross average of \$14.28 for his mink pelt as compared with \$19.48 the previous year. Since that time, 1966, the market in the United States has never really regained its vitality as we once knew it.

In a few minutes, Mr. Chairman, you will be hearing from Mr. Woodley in this regard as to what really happened in the market insofar as it affected the mink industry.

It is probably of no particular benefit to any one to look back on the market 4 or 5 years and debate what may have been the cause, or causes of the various price fluctuations. Our immediate problem, and more directly the problem of this committee, is to formulate and adopt the rule of legislation that will afford our members an opportunity to fairly share in the U.S. market and to be able to compete with pro-

ducers in other countries whose costs are considerably lower than are our members. If this is not accomplished in this session of the Congress, we seriously doubt the mink farming industry can survive as an integral part of our agricultural economy.

There is no question but what there are many economic forces, in addition to excessive imports, that are at work in the marketplace today and which forces, in their combined form, have caused this precipitous break in the mink market. Likewise, there is also no question but what the availability of an increasing supply of mink pelts being produced in other of the free world countries and which can be imports. We can hardly expect the American fur farmer to invest additional capital that our customers consider when bidding for the U.S.-produced mink pelt. This is why, even taking into account these other economic factors, we must have some form of effective regulation of imports. We can hardly expect the American fur farmer to invest additional capital in his operation and to devote more of his gross income to the promotion of his product in an attempt to overcome other economic factors if he is not assured that our Government will provide him with some reasonable means of protection from unlimited imports.

I noted in reviewing the testimony of Secretary Hardin, here when he appeared before your committee, Mr. Chairman, on May 13, 1970, Secretary Hardin pointed out, and he said, "The United States protects its farmers with duties averaging 10 percent."

I think, with few other exceptions, mink is one of the few agricultural commodities that does not have any restrictions in any form on imports. I do not think we particularly, as an industry, enjoy that distinction.

I think some of our members refer to it as discrimination.

Just last month, it may be of some importance to some committee members to notice that the American producers were meeting with our competing producers of other nations in Europe, the Canadians and all of the Scandinavian countries were represented, and there was an attempt made to work out, explore, try to discover whether or not there were any areas in the field of marketing, in the promotion of mink that would be of assistance to all of the countries who were represented at that conference.

The results of the conference failed simply because the Scandinavians imposed a condition in working with us in other areas that was simply intolerable to us as American farmers, and that condition was we would have to abandon any efforts before our Government to attempt to secure some form of relief over imports.

I think the price tag was simply too high. Our American producers would simply not accept it.

CONCLUSION

In conclusion, at this point in time we are frank to state that our industry has done everything that it possibly could to bring this issue to the attention of the Congress and your committee. As the committee is well aware, scores of bills have been introduced in the House and the Senate which are designed to regulate the imports of mink pelts. There is really nothing further that we can do until this committee acts. We are fully aware that we are placing a tremendous

burden on this committee when we ask it to act affirmatively to provide our members some form of relief, but under the Constitution and the organization of the Congress, the burden and the responsibility does lie here in this body to formulate the legislation that regulates foreign trade.

We plead with you to exercise this authority. The American mink farming industry was born in adversity, it prospered as a result of the mink farmers dedicating itself to hard work and their inventive ability in the field of animal genetics. It has never come to Washington, D.C., and asked for one penny by way of subsidy, grants or otherwise. All our members ask for now, Mr. Chairman, is an opportunity to compete on a fair economic basis with other producers and to have the chance to revive this industry so that it will prosper again and share in the economic well-being and responsibilities of our national economy.

In addition, Congressman Nelson's bill which is identical to Chairman Mills' bill which has been introduced regarding shoes and textiles, with the exception of Congressman Nelson's bill, includes the commodity mink.

Congressman Nelson's bill also includes a subject relating to the escape clause of authority which we support as an industry.

(The following attachments to Mr. Plaisted statement were received by the committee:)

TABLE 1.—MINK FUR SKINS: U.S. SALES, IMPORTS FOR CONSUMPTION, EXPORTS OF DOMESTIC MERCHANDISE EXPORTS OF FOREIGN MERCHANDISE, AND APPARENT CONSUMPTION, 5-YEAR AVERAGES 1953-67, ANNUAL 1963-69

[Volume figures are in millions of fur skins]

	U.S. sales (production) ¹			Exports				
	Ranch	Wild	Total	Imports for consumption ²	Domestic merchandise	Foreign merchandise (reexports)	Apparent domestic consumption ³	Ratio of imports to consumption (percent) ⁴
Average:								
1953-57.....	2.4	0.4	2.8	1.8	0.5	0.1	4.0	42
1958-62.....	3.7	.3	4.0	3.2	.9	.1	6.2	50
1963-67.....	5.2	.3	5.5	5.0	1.1	.1	9.2	53
Annual:								
1963.....	4.3	.4	4.7	4.5	1.1	.1	8.0	55
1964.....	4.7	.3	5.0	4.4	.9	.1	8.4	51
1965.....	5.3	.3	5.6	4.9	1.2	.1	9.2	52
1966.....	5.7	.2	5.9	5.7	1.1	.1	* 10.3	54
1967.....	6.0	.2	6.2	5.3	1.3	.1	* 10.2	51
1968.....	7 6.5	.3	6.8	4.7	1.4	.1	10.0	46
1969.....	7 5.5	.2	5.7	3.6	1.5	.1	7.7	45

¹ For a particular year, the data reported here represents sales by ranchers and trappers for mink fur skins that were obtained almost entirely from peltings during the preceding November and December.

² Excludes Japanese mink and dressed mink fur skins which are imported in insignificant quantities.

³ Sales plus imports minus exports of both domestic and foreign merchandise.

⁴ Imports as used here equal imports for consumption minus exports of foreign merchandise.

⁵ Includes estimates for dressed fur skins.

⁶ Consumption data for 1966 and 1967 were adjusted slightly to take account of a surplus of unsold fur skins in the hands of dealers on Nov. 30, 1966; this surplus was disposed of in 1967. The figure for 1967 would be higher than shown if it had also been adjusted to account for the unknown quantity of fur skins held by garment manufacturers in 1966 and used in 1967.

⁷ Estimated by the National Board of Fur Farm Organizations, Inc. (1969 annual report, p. 21).

Source: Sales (production) of ranch mink fur skins compiled from information submitted to the U.S. Tariff Commission by ranchers, auction houses, and others, except as noted; sales (production) of wild mink fur skins compiled from official statistics of the U.S. Department of Interior; imports and exports compiled from official statistics of the U.S. Department of Commerce. Supplied by U.S. Tariff Commission, report to Committee on Ways and Means, March 1970.

TABLE 2.—WHOLE FUR SKINS OF MINK, NOT DRESSED: U.S. IMPORTS FOR CONSUMPTION, BY PRINCIPAL SOURCES, 1965-69

Source	1965	1966	1967	1968	1969
Quantity (in thousands of fur skins)					
Scandinavia:					
Norway.....	853	1,182	1,053	991	773
Denmark.....	1,175	1,508	1,195	956	781
Sweden.....	923	1,001	895	656	594
Finland.....	600	696	674	727	464
Total.....	3,551	4,387	3,817	3,330	2,612
Canada.....	847	800	1,143	987	727
All other.....	458	464	386	391	269
Total, all countries.....	4,856	5,651	5,346	4,708	3,608
Value (in thousands of dollars)					
Scandinavia:					
Norway.....	11,418	15,700	10,795	11,850	11,174
Denmark.....	14,016	18,567	11,282	11,001	9,862
Sweden.....	12,096	12,479	8,816	8,102	7,760
Finland.....	8,250	8,771	6,520	8,137	5,642
Total.....	45,780	55,517	37,413	39,090	34,438
Canada.....	13,235	12,026	13,777	12,399	9,717
All other.....	4,916	5,226	3,444	3,983	3,385
Total, all countries.....	63,931	72,769	54,534	55,472	47,540
Unit value (per fur skin)					
Scandinavia:					
Norway.....	\$13.39	\$13.28	\$10.25	\$11.96	\$14.46
Denmark.....	11.93	12.31	9.44	11.51	12.62
Sweden.....	13.10	12.47	9.85	12.35	13.07
Finland.....	13.75	12.60	9.67	11.19	12.16
Average.....	12.89	12.65	9.80	11.74	13.19
Canada.....	15.63	15.03	12.05	12.56	13.36
All other.....	10.73	11.26	8.66	10.19	12.57
Average, all countries.....	13.17	12.88	10.20	11.78	13.18

Source: Compiled from official statistics of the U.S. Department of Commerce, U.S. Tariff Commission report to Committee on Ways and Means, March 1970.

AVERAGE PRICES OF DOMESTIC MINK PELTS SOLD AT U.S. AUCTION, AND AVERAGE VALUE OF IMPORTS OF MINK PELTS IMPORTED INTO THE UNITED STATES FOR THE YEARS 1965-70

	1965	1966	1967	1968	1969	1970
Average prices of domestic sales.....	¹ \$17.57	\$19.48	\$14.28	\$14.95	\$16.33	² \$11.64
Average value of imports.....	13.17	12.88	10.20	11.78	13.18	³ 9.25

¹ Prices are gross prices paid to farmer.

² For sales through May 25, 1970.

³ Estimated.

Source: Domestic sales, National Board of Fur Farm Organizations, Inc.; value of imports, U.S. Tariff Commission statistical tables.

Mr. PLAISTED. Mr. Chairman, do you prefer to have Mr. Woodley's testimony stated now at this point before any questions?

Mr. GIBBONS. Mr. Woodley can now proceed to present his testimony, or whatever you choose.

STATEMENT OF ALBERT WOODLEY

Mr. WOODLEY. Mr. Chairman, and gentlemen of the committee: I am Albert Woodley, president of the Albert Woodley Co., Inc., of

New York, N.Y. I have been in the advertising business practically all of my life and have operated the above-mentioned advertising agency for some 27 years. Our firm has handled the account of the EMBA Mink Breeders Association for the same length of time.

During this period, our firm has formulated and directed the basic advertising and promotion policies for the association, developed the markets in the United States from scratch and built the acceptance for American Mink at great breadth and depth throughout America. We created a system of secondary trademarks to establish a standard of excellence and quality to the public, the fur markets and the fashion editors.

The amount of money invested for the creation of markets for EMBA mink though limited to begin with, steadily grew as we developed the market to the point where the annual appropriation by EMBA has reached a figure of some \$950,000, making a total of some \$20 million spent through the years.

This money has been spent largely in the prestige and fashion magazines and for prestigious fashion shows. We have produced for EMBA distinction fashion and educational posters, expensive brochures, booklets, folders and photographs most of it in natural four color; made presentations of Emba mink to leading international personages, achieving much favorable and impressive publicity thereby, always with the objective of keeping the standing of American mink high in the esteem of the rich buying public.

The notables who graciously accepted garments of Emba mink and helped to maintain the valuable EMBA image included Pope Paul VI, H. M. Queen Elizabeth, Mrs. John Kennedy; Mme Vincent Auriol, wife of the President of France and wives of several of the U.S. astronauts.

EMBA was the first mink producer to give fur fashion shows for the press and for charities, again the objective being to keep American mink image at the top. The charities have included: The S.S. *Hope*, the American Red Cross, the Washington Symphony Orchestra and various educational institutions.

During the above period, foreign-raised ranch mink, principally Scandinavian, came on the American fashion scene. Foreign producers swiftly increased their shipments of pelts to America so that the market has been flooded with foreign mink skins, much of it inferior in quality to the American production. In 1966-67 more foreign-produced mink came into America than the Americans produced. This has had the double effect of tarnishing the prestige mink image largely built by our funds and of reducing prices received for the skins to below the cost of U.S. production.

On December 5, 1967, I gave testimony before the U.S. Tariff Commission on mink fur skins. I would like to quote an excerpt from this testimony which is reported on page 116, volume I:

Now, cheap mink is mink of poor quality, and imported foreign mink is largely of poor quality. The prestige image of mink is being eroded by these unrestricted imports to an alarming degree to a point where the American mink industry may collapse to a state where Womens' Wear Daily, the Bible of the industry, said recently that "Mink had driven a big hole through cheap furs." This means that stores can now offer mink garments at the price of the traditionally cheap furs of other animal origins. Soon, if not now, it is goodbye to mink as a prestige fur and mink as a fur on which the American farmer can make a living. Many

farmers, some of the very good ones, have already gone out of business because of the cheap imports, and unless relief is afforded in the way of import controls, the entire American mink industry could be put out of business in two years.

It cannot be said that cheap foreign mink is not competitive and fills some imaginary need, because of its lower price. It is worse than that, it is downright destructive for it tragically dilutes the entire face and fortune of American Mink.

This prediction, tragically has come true. The association has lost more than 4,000 ranchers who have been forced out of business by the vast quantity of imports from foreign lands which are sold at a price on which the American rancher cannot subsist. This, in turn, forces down the price on American mink skins and is diluting the prestige image to the position where, in the immediate future, no American farmer may be able to stay in business. Protection in the form of an import quota is the only way to save the American mink farmer from extinction.

Thank you.

Mr. GIBBONS. Thank you, sir.

Mr. Byrnes?

Mr. BYRNES. Mr. Chairman, there are some aspects of this matter that I would like to have clarified.

First, I know of no sector of our economy that is more depressed than the mink industry.

Let me ask any one of these witnesses whether there is any element of the industry, any type of mink really going at a profit?

Mr. PLAISTED. Not in a color type face, Congressman Byrnes, I think the end of the most recent sale was a week or two ago and the sale included several dark type minks, and one of the color type minks that has held up quite well in the last couple of years in the face of an adverse market. I talked to Mr. Dave Markham who is marketing manager for the Great Lakes Marketing Association who conducted the sale for dark mink and I think the sale was less than \$10 which, even up to now, the color type has been substantially firm.

So, in answer to your question, there is not any color type now, sir, that is not being sold at an average below our cost of products.

Mr. BYRNES. Has this been the case since about 1968?

Mr. PLAISTED. Yes, sir.

Mr. BYRNES. Through the marketing season of 1968 and the marketing season of 1969, and you have had some marketing in 1970?

Mr. PLAISTED. Yes, sir, a substantial portion of the crop is already sold.

Mr. BYRNES. So, for these three marketing seasons, the basic sale of mink has been on a loss basis as far as production costs in this country are concerned; is that correct?

Mr. PLAISTED. Yes, sir, I think you will find, when Mr. Garth testifies, and he has appended to his statement the cost of production at least in the central Wisconsin area, and the costs reflected there are higher in the years represented than any one of the years, the 3 years you are talking about.

Mr. BYRNES. In the mink industry a greater portion of the sales are auction sales, are they not?

Mr. PLAISTED. Yes, sir.

Mr. BYRNES. So we do have in the mink situation a way of knowing what the market price is, because a public operation determines

the price at which mink are sold, at least by the ranchers and the breeders.

Mr. PLAISTED. That is correct. We know of no better way to establish a market price than by public auction.

Mr. BYRNES. Here we can see the composite and we can see what is happening as far as prices are concerned through the auction market.

Mr. PLAISTED. Yes, sir.

Mr. BYRNES. I think we ought to have a little clearer picture of just what EMBA really is and what it represents. It represents a segment of the industry, does it not?

Mr. PLAISTED. EMBA is the marketing organization that arranges for the sale and advertises and promotes through Mr. Woodley's agency all types of minks other than dark, the mutations. EMBA does not stand for any words as such. It is the marketing organizations through which all of the members' mutation pelts are sold other than the dark types.

Mr. BYRNES. It is an organization consisting of the producers of mink, the mink farmers of the mutation type?

Mr. PLAISTED. Yes, sir. EMBA is the trademark under which all of the mutation pelts raised by the U.S. producers who are members of the Association under advertising and promoting as Mr. Woodley explained it under that trade market.

Mr. BYRNES. EMBA, then is really a marketing and promotional organization, developed by the mink breeders of mutation mink, to advance markets and create markets wherever possible for mutation mink?

Mr. PLAISTED. Since the EMBA organization was formed and the Great Lakes organization was formed in the mid-1940's, the farmers have expended through EMBA and Great Lakes in excess of 20 million dollars in consumer advertising to promote our own product.

Mr. BYRNES. To make the record clear, you have an industry—I guess we call it “industry” one time and “agriculture” another time—which has spent its own funds developing the American market.

Mr. PLAISTED. Yes, sir.

Mr. BYRNES. Does EMBA have any foreign members in their association?

Mr. PLAISTED. No, sir.

Mr. BYRNES. So this has been a market created fundamentally by the American producers?

Mr. PLAISTED. One hundred percent, Congressman.

Mr. BYRNES. In recent years the market for mink has been depressed, has it not?

Mr. PLAISTED. Yes, sir; and in this year drastic conditions.

Mr. BYRNES. The state of the market was reflected in the imports coming into this country, is that correct?

Mr. PLAISTED. Yes, sir; as the tables appended to my statement will show which is nothing more than a repetition of the U.S. Tariff Commission report—

Mr. BYRNES. Things are so bad in this industry, even foreign producers do not want to come into this market as I understand it.

Mr. PLAISTED. That is exactly the situation.

Mr. BYRNES. So you have a question of whether American producers can survive as a result of the state of this market.

Mr. PLAISTED. If this price condition continues, there is not a rancher in this room or in the country who can survive.

Mr. BYRNES. As I understand it, you had a large increase in imports in 1966.

Mr. PLAISTED. Yes, sir; that was the peak year.

Mr. BYRNES. Was it at that point that the market collapsed?

Mr. PLAISTED. Yes, sir; in that year imports increased from approximately 4 and a half million mink to 5 and a half million mink, and we had a break in the price structure the following year because of a carry-over of these skins plus our domestic skins. It was a price break of \$4 or \$5 and we have not recovered.

Mr. BYRNES. In 1967, there was a decrease in imports from the previous year, but even so, imports still were higher than the preceding years?

Mr. PLAISTED. Yes.

Mr. BYRNES. You had continuing high imports, price was a factor, and there was a tendency to undercut the market. Is that what happened?

Mr. PLAISTED. Yes, sir; exactly.

Mr. BYRNES. It is a situation from which the industry has not recovered, with everybody practically operating at a loss?

Mr. PLAISTED. It is indicated by the decline in the number of producers in this same period from about 6,500 producers according to Tariff Commission figures, down to about 2,000 members.

Mr. BYRNES. We have a number of mink ranchers in our area, and one of the largest of these, the Wittick Farm, just folded up. You cannot be in a loss situation for 3 years in a row, with no future in sight, and still operate.

The point the industry appears to make is that, unless there is some protection, unless there is some security in terms of this market or the ability to rely on this market, the domestic producer has no future because there is always overhanging this market the potential for a large influx of imports in the future?

Mr. PLAISTED. It is difficult for us, Mr. Chairman, and Mrs. Griffith, to go to our members in a year such as this and say, "Fellows, you have to give us a larger percentage of your gross pelt proceeds so we can do more advertising to try to turn this answer around, and their question is obvious, "For whom?"

Then the buyers will bring in more foreign skins. So, it simply seems illogical for us to try to revive the market and to ask our members to assist us in their marketing and promotion unless we can have some cover on the total amount of skins that are available to be brought into this country.

Mr. BYRNES. I would think that the foreign producers who do ship to this country would be as concerned about what has happened to the U.S. market, particularly in mutations, as are the American producers. This market has gone out from under them, as shown by the fact that they have cut down their exports to this country.

Mr. PLAISTED. It certainly has and this is one of the subjects of lengthy discussion we had in our European conference and we concluded the same as you. We asked the same question but this does not appear to be their attitude or conclusions.

Mr. BYRNES. I did not get the last part of that.

Mr. PLAISTED. This was exactly our position when we discussed this matter with them in the recent European conference but they simply do not agree and do not seem to be concerned about that aspect of it.

Mr. BYRNES. It is apparent, with what has happened to the market here, the price is down and is far below what they used to be getting as foreign exporters to this market.

They are getting less, everybody is getting less, so they ought to be concerned about that aspect of the market.

The market is accepting less, is selling less in terms of the trade?

Mr. PLAISTED. Our production is down 3 or 4 million mink in the past year.

Mr. BYRNES. So that affects the market in which they can sell?

Mr. PLAISTED. It certainly does.

Mr. BYRNES. So, we can have orderly marketing for the benefit of both the domestic producer and the foreign, or we are never going to survive. It is going to be an up-and-down market, and nobody will know where they are, and it will result in eliminating a segment of our economy.

Mr. PLAISTED. We are close to eliminating the fur farm this year.

Mr. BYRNES. This is all, Mr. Chairman.

Mr. ULLMAN. Mr. Chairman, we have some mink producers in Oregon, too.

Mr. PLAISTED. Yes, and some very good ones.

Mr. ULLMAN. We have a lot less now than we had a few years ago and I think that is the situation around the country.

I was interested as to what you think might help.

Your market seems to be in such disarray, I am not sure any of the proposals before the Congress would help a great deal, but it certainly would not do any damage.

The way your furs are sold creates some problem, does it not, you are about the only commodity that is sold at worldwide auctions. Where is the main fur auction held?

Mr. PLAISTED. Our principal auctions, Congressman Ullman, are held in New York City through the Hudson Bay Co. and the New York License Co., both licensed New York auction outlets. We also have outlets in Milwaukee and Minneapolis and Seattle.

Mr. ULLMAN. Are these also public auctions?

Mr. PLAISTED. Yes, as producers, we do not own or control any auction houses.

Mr. ULLMAN. I presume the main competition is from Scandinavian countries?

Mr. PLAISTED. Yes, and Canada is also a principal exporter of mink to the United States.

Mr. ULLMAN. How do these auctions work? They have the pelts there, I presume.

Mr. PLAISTED. The Canadians sell their skins at public auctions, public-owned auction houses in Canada.

The Scandinavians sell their skins through rancher-owned auction houses located in, I believe, the four Scandinavian countries. They are also sold at auction in about the same manner as ours are offered.

Mr. ULLMAN. Then the New York auction is only domestic pelts, right?

Mr. PLAISTED. That is right, as far as we know. We are talking about mink skins now. These auction houses sell skins of foreign origin but not of mink.

Mr. ULLMAN. I notice in one of your tables here you have the average price of domestic sales for 1970 as \$11.64 and the average value of imports is \$9.25. Why the margin between the two?

Mr. PLAISTED. As you will note, Congressman Ullman, there is a wide variance each year in the domestic prices as compared to the foreign-produced pelt, the principal reason being on an average the foreign-produced pelt is of lesser quality than the American-produced pelt.

I think this is reflected in the prices set forth on table 3 and particularly in view of the fact, as I pointed out in answer to your previous question, our skins are offered in about the same fashion as are our foreign competitors and this gets back to the point Mr. Woodley made, that because of these lower-grade pelts, it has further depressed the domestic market and broken it in 1967 and 1968.

Mr. ULLMAN. The value of imports generally is set then by the foreign auctions?

Mr. PLAISTED. The prices that appear on table 3 are taken from our U.S. Commerce Department figures and I assume are the declared value. We have every reason to believe it is the sale price declared.

Mr. ULLMAN. I would assume it would have to correspond to the auction price?

Mr. PLAISTED. Yes, sir.

Mr. ULLMAN. You do feel, then, that some kind of quota bill plus a tightening-up of the Tariff Commission procedures would help you some?

Mr. PLAISTED. Yes, sir. Our American producers, if we are going to survive at all, we simply have to have some cover, some limit on the import coming into this country and to restore confidence in the market at the producer level to go out to try to rebuild this market. The market is off. There is no question about it.

Mr. ULLMAN. Do you see anything in the world picture to make you optimistic, does this go in cycles?

Back in 1966 we had a real increase in imports. Is there anything you see in the world production that might be working in our favor?

Mr. PLAISTED. Nothing whatsoever. As I stated in my direct testimony, all of the information we have indicates that even in these extremely depressed market conditions we have this year, the Scandinavians have not decreased their production.

In fact, from some quarters, we are advised it has increased there, so there we have a continual increase in production and no notable increase or decrease as far as Canada is concerned.

So, all I can say is we see an increase in foreign-produced pelts.

Mr. ULLMAN. I cannot see where this industry can be profitable in Scandinavian countries or Canada, either.

Mr. PLAISTED. I presume you will be hearing from representatives of their interests that they have to be hurting under these price conditions. I think it shows in the number of imports coming into the United States. At the cost of production, they simply have to be hurting. They told us when we met with them in Europe and we have every reason to believe them.

Mr. BETTS. I am very much impressed in the case you have made here this morning. I think there is mink production in Ohio.

Mr. PLAISTED. Yes, Ohio is a very substantial producing State.

Mr. BETTS. I was interested in what you had to say about the so-called distinction between primary and major causes. I have been concerned ever since hearings on this bill began as to whether or not there was any real distinction between the two. As I understand it, you feel there is not, is that correct?

Mr. PLAISTED. I do not profess to be an expert in English but I cannot see any difference.

Mr. BETTS. As you say, it is a question of sorting out different economic factors and fitting them into the picture. Whereas, if you follow the test of the chairman's bill of substantial injury, then you would really have something you could sort out very easily from the fact.

Mr. PLAISTED. I think, if the escape clause is going to be amended in any form, certainly Chairman Mills' bill is more meaningful than the present test or that which is in the President's bill.

Mr. BETTS. I am happy to hear that because I am glad to hear that there are no different economic factors in sorting out whether it is major or primary. The test should be one of substantial injury.

Mr. PLAISTED. We think so.

Mrs. GRIFFITHS. I will pass to Mr. Gilbert.

Mr. GILBERT. The industry that you are connected with also has to do with style?

Mr. PLAISTED. Style is a factor as Mr. Woodley pointed out.

Mr. GILBERT. The attitude of the buyers and the consuming public are involved.

Mr. PLAISTED. I would like to refer this question to Mr. Woodley.

Mr. WOODLEY. I did not catch your question, Mr. Gilbert.

Mr. GILBERT. Your industry is concerned with style and attitude of the consuming public.

Mr. WOODLEY. Yes, sir; it is.

Mr. GILBERT. You say that you deal with mutations.

Mr. WOODLEY. We are concerned solely with mutations as far as I am concerned.

Mr. GILBERT. Would you explain to us what a mutation is?

Mr. WOODLEY. A mutation is a variation in color, naturally, due to genetic background from the normal color usually found in that animal.

In other words, the mink were principally dark brown in the wild state. I believe, in the 1940's two ranchers in Wisconsin noticed two gray mink appearing among the litter of say three or four kits and, instead of destroying these kits as being off color, they were curious to see what would happen if they bred them.

They spent a lot of money and organized an association and had a public sale when they created enough pelts to make a coat and after the first sale or at the first sale, they reached the hitherto unheard of price of \$265 for the top pelt.

Since then they have produced, the American ranchers, have produced 14 or 15 natural colors.

Mr. GILBERT. What the American rancher is doing is to raise mutated minks in order to sell to the market a year or two from the time that they are producing these minks?

Mr. WOODLEY. Yes, sir.

Mr. GILBERT. In essence, they are trying to guess what the market is all about?

Mr. WOODLEY. They have developed, I think, a sense of knowledge and natural color and quality and have almost had uncanny success until this overproliferation in developing colors the public has accepted.

Mr. GILBERT. Also there are many colors that the public has not accepted?

Mr. WOODLEY. Yes, and a number of them have gone by the board and have gone by as the public felt they were not acceptable.

Mr. GILBERT. Would you say a part of the reason for the fact that your industry may be depressed is you have just been guessing wrong as to what the public would like?

Mr. WOODLEY. No, sir, I think the batting average of the mink farmers has been outstandingly good, and those colors which he felt were not satisfactory were sold as miscellaneous very often and they, in turn, were bought by the trade and dyed some color like black.

Mr. GILBERT. In the garment industry or any other style industry they are just trying to guess what the public will buy.

If there is resistance to a particular color or style, you are just not going to do any business.

Mr. WOODLEY. In many cases the color types which have been produced and which have been outmoded are no longer bred because of public lack of interest.

To me that has been occasioned by the fact that the American mink farmers have produced other color types in the same color category which were regarded as superior. For example, the natural clearness of the under fur as well as the over fur would supplant just as one type of car might supplant another model of 2 or 3 years before.

Mr. GILBERT. Would you say some of your people have gone out of business because they have not had the correct color or what the buying and consuming public desires.

Mr. WOODLEY. It is possible with some, but most men have good acumen when it comes to animal husbandry and they are quick to go to better producing parts.

Mr. GILBERT. I am not questioning their expertise on the raising of minks and I admire your people and those associated with the industry, but I am talking about the judgment a man has to make.

He may be the greatest breeder in the world and he may get the most beautiful color in the world but if the consuming public does not like or does not want the color he breeds, then he is just not going to sell it.

Mr. WOODLEY. The instances are few and far between.

Mr. GILBERT. You would say it has an effect on the market and, as a matter of fact, those in your industry who have used the term, guessed correctly, have had banner years.

They have done tremendous business, is that right?

Mr. WOODLEY. In the year where mink color type has faded away. We have not had vast imports and the average price for all mink has been much more satisfactory than today.

Mr. GILBERT. There are ranchers who are doing a tremendous business in the event they have the right color that the consuming public wants for that particular year.

Mr. WOODLEY. I believe the ranchers of today are not doing a terrific business. Average prices are low.

Mr. GILBERT. I do not want to get into a quarrel with you about this, but what I am saying is there are people in your business who are the mink ranchers and the breeders who are doing exceedingly well as opposed to others within your own industry because of the fact that they have the right color, they produce the right color and the right texture of skin so that the consuming public would gravitate toward the purchase of these skins. They are naturally going to do a bigger business than those who guessed wrong.

Mr. WOODLEY. If such a rancher exists today or several of them who are doing exceedingly well, and I do not know of any offhand, as soon as his color is found out, there will be swarms of imports come in and further depress the price and he will get his in due course, which has been the history of our business.

Mr. GILBERT. Would you say economic conditions nationally in the country has an effect on the mink market?

Mr. WOODLEY. Yes, indeed, but what was worse for the dark mink was the news published this year that Russia will have 3 million alone and Russians do not consume mink. It is all exported.

Mr. GILBERT. I am talking about the American consuming public and how much money they have in their pockets to purchase furs.

Mr. WOODLEY. Conditions have affected mink as have many other commodities.

Mr. GILBERT. As a commodity, I would say mink basically is a luxury fur.

Mr. WOODLEY. It was until fairly recent years.

Mr. GILBERT. What has happened to change the fact that it is not this luxury?

Mr. WOODLEY. Its availability at low prices and consequent availability in source so that a mink garment can be purchased very often in the basement of a department store or in a cutrate store at a price whereby the American mink rancher can not exist and also people who are willing to pay a higher price feel the item has been downgraded and they do not want to wear it.

Mr. GILBERT. In other words, it has an adverse effect?

Mr. WOODLEY. Yes, sir.

Mr. GILBERT. Do you say 1966 was a peak year of imports of mink into the United States?

Mr. WOODLEY. I understand that to be but that was not my testimony. I think Mr. Plaisted mentioned that.

Mr. GILBERT. In other words, there were about a million more skins brought into the United States in 1966, is that correct?

Mr. WOODLEY. Yes, sir; 5.7 million.

Mr. GILBERT. That means 1 million skins have so depressed the market since 1966 that this has caused so many of your ranchers to go out of business?

Mr. WOODLEY. I believe someone else's commentary was there was a piling-up of these figures and a gradual acceleration to the point where, like everything else, if you pour too much in, they overflow.

Mr. GILBERT. If I understood the testimony, it was that there was an increase of approximately 1 million skins in 1966 and from that point on, your industry has gone downhill and that these 1 million skins have been the bane of your existence.

Mr. WOODLEY. I would say this accumulation, including the 1 million you speak of plus the fact that, as the figures show, a large part of them were of inferior quality and that downgrades the item.

Mr. GILBERT. Do you mean the imported skin was of an inferior quality?

Mr. WOODLEY. Yes.

Mr. GILBERT. Would you not say, if you had a superior skin, it would help your industry?

Mr. WOODLEY. Yes; I think it has been established that American mink is far superior in the trade and fetches more money on the average when compared to prices reached at auction compared with any other.

Mr. GILBERT. I would think that would be very helpful to the American market.

Mr. WOODLEY. It is where the fashion image comes in. We once feared coats costing \$1,500 were made of nondescript mink and now people pay \$3,000 for them. Now mink coats are being advertised for \$550. Some people would pay \$10,000 a few years ago and are now reluctant to pay anything.

Mr. GILBERT. Also it is a price factor. In listening to your argument, it is that it is of inferior quality and sells for a much lesser price than the American skin.

Mr. WOODLEY. Right, and they have been coming in at vast numbers that the market cannot absorb. As Mr. Plaisted stated, there was a big carryover that peak which meant all previous year skins were still in the market when the new crop came in.

Mr. GILBERT. Is it your argument, if you prevent the importation of these skins, that the American skin is going to be sold here and that the price of mink is going to jump up to a very high price again in the retail market?

Mr. WOODLEY. It is quite obvious, we think if there is some restriction and the vast availability of imports in mink are not in the market, shall we say, prices will rise.

I can testify that many mink manufacturers have told me they would much rather pay more because they can make more on the markup and get a better item and have more demand for the product.

Mr. GILBERT. Don't you think the consuming public would like a lower priced garment and want a quality garment and are willing to pay for it?

Mr. WOODLEY. To him, mink looks the same just like diamonds. One must rely upon the expertise and knowledge of an honorable furrier and will willingly pay more for a better garment.

Mr. GILBERT. The furrier and the rancher is honorable. I am not discussing that. I am talking about the American consumer. If you are going to have a mink that is of an inferior quality, that is going to sell for \$150 or \$200, just for the sake of argument, for want of a superior quality, and you have one selling for \$500, you leave that to the public to determine which item they desire to purchase.

As you alluded to a moment ago, you take a diamond. Those of us who can not afford it buy a diamond of a lesser quality that may have some defect in there. Yet there are other people who are going to purchase diamonds based upon what they can afford and based on what they think they want to wear so they purchase diamonds for a great deal more money.

So, in essence, your problem is one of quality of your product. It is one that the consuming public would have a determination to make whether they want to purchase a mink at a lesser price or one at a higher price.

I think that should be left to the judgment of the American public.

Mr. WOODLEY. May I make a comment on that?

Mr. GILBERT. Surely.

Mr. WOODLEY. The diamond industry, whoever controls it, I believe diamonds are found in many parts of the world, have been clever enough not to dump merchandise on the market so that an expensive diamond or a fine diamond I am told is the same price in New York, in San Francisco, Paris and Antwerp—wherever you go, and the prices for diamonds with flaws in them which are off color are about the same price everywhere you go and those defects are readily distinguishable, but the producers there, unlike the mink producers of the world, in the case of the diamond people have been smart enough to hold back production or not dump stuff on the market to lower the price.

Mr. GILBERT. I do not know much about the diamond market but I do know you find diamonds sold at all prices. You have diamonds that are synthetics that are sold as diamonds or give the appearance of the diamond. I do not want to belabor the point.

I think we are in agreement. I would like to see a very healthy American industry. I am for an American industry. I do not know that our approach to the problem would be the same but I would certainly like to see our American ranchers do the very best and even better, and I certainly support you in principle in what you are taking on and seeking to do.

Mrs. GRIFFITHS. Would the gentleman yield to me?

Mr. GILBERT. Yes, ma'am.

Mrs. GRIFFITHS. How many full-length mink coats have been sold in the United States in the last 10 years?

Mr. WOODLEY. I do not know. I did not have the interest to look up that point.

Mrs. GRIFFITHS. Could you find out?

Mr. WOODLEY. Yes; I can.

Mrs. GRIFFITHS. How many chinchilla coats?

Mr. WOODLEY. I would not know that, either.

Mrs. GRIFFITHS. How about sable?

Mr. WOODLEY. I would not know that, either.

Mrs. GRIFFITHS. Is it not one of the problems that a full-length coat of any kind, a full-length furcoat today is not really a practical garment? Once upon a time they were. They were a status symbol. When you ride in a heated car, right to the door where you are going, and you go into a heated building, it is no longer necessary.

I looked at this advertising. I do not know what growers advertise, but one of the things that has changed stylewise has been the mink

stole. There was a time when everyone wanted a mink stole. The truth was, it was quite a practical garment. You were not too hot when you were shopping and even in the summer, when you went into air-conditioned places, it was comfortable to have around your shoulders. But this is no longer a fashionable garment, so that you have lost a lot of sales despite the practicality of it, and the stylists themselves have paid no attention to it.

A mink stole or any kind of fur stole has some real practicality in today's world but a long mink coat is really the height of the ridiculous.

There is just no place to wear it unless you are planning to wear it to a football game out in Wisconsin or Detroit. It is a good idea there. But then somebody behind you flips cigarette ashes on it and you burn it.

Mr. WOODLEY. It is difficult to account for fashion or describe what motivates it, but mink coats or coats of fur are very, very popular today.

I do not know whether it originates in Paris or the great fashion centers of the world. Many, many coats are sold. There are still many, many small pieces and we, as producers, have tried to take the initiative to help fashion along and even this year brought out a number of small pieces that a woman could wear safely, to answer the particular point you raised, so we had panchos, and colors and mink wraps that were shall I say, stoles with another name, and another look.

The fur trade has not been to the forefront in creating styles. So, we as producers have tried to take the initiative in popularizing colors that we thought were fashionable and shapes. We spent a lot of money doing it.

Mrs. GRIFFITHS. Thank you, Mr. Chairman.

Mr. GIBBON. Mr. Schneebeli.

Mr. SCHNEEBELI. I notice your market went from \$16.33 down to \$11.64 per skin. Did your international market break to the same extent, roughly?

Mr. PLAISTED. There is a break in the international market on the lower column of figures based on approximately a little less than \$2.

Mr. SCHNEEBELI. In the international market only \$2 and in our market \$5.

How would that happen if there is virtually no duty? Would there not be one international price pretty much since we have no duty?

Mr. PLAISTED. Part of the answer may be that the figures represented only table 3 are for the calendar year figures on imports. This is the way they are compiled by the Commerce Department.

The figures as to average prices for domestic sales represent the prices for the selling period which begins—

Mr. SCHNEEBELI. I realize your domestic price decreased but what about the price in Scandinavia, did the price go down there in the past 5 years?

Mr. PLAISTED. It did not happen that same year.

Mr. SCHNEEBELI. Is there a rather uniform price throughout the world of the same quality skins? Since we have no duty, why wouldn't the international price seek its own level?

Mr. PLAISTED. The price fluctuates from sale to sale and month to month.

Mr. SCHNEEBELI. Is there one general price throughout the world?

Mr. PLAISTED. No, sir.

Mr. SCHNEEBELI. Why would the price be different in Scandinavia than New York?

Mr. PLAISTED. The inferior quality pelts.

Mr. SCHNEEBELI. I am talking about the same quality pelt.

Mr. PLAISTED. There was a practice going back to 1966, I think, in that year, and correct me if I am wrong, Mr. Woodley, for the Scandinavians to sell and to announce they would sell without limits.

Mr. SCHNEEBELI. It seems to me since we have no duty generally on mink, that the price in New York would probably be about the same price in Scandinavia, ex-transportation which would not be much for this product.

Mr. PLAISTED. This would not be necessarily true because the method of selling in Scandinavia in those years——

Mr. SCHNEEBELI. At the present time is your international price about the same?

Mr. PLAISTED. No; I think the price would be lower in Scandinavia because they have different selling policies.

Mr. SCHNEEBELI. Why sell it in Scandinavia at a lower price if you can sell it in New York at a better price? Why sell it at a lower price in Scandinavia than in New York where there is no duty?

Mr. PLAISTED. It is their selling prices. The Scandinavians have sold at least in the past a greater percentage of their mink on a given sale without any price floors than have the American producers so that, if the American producers are attempting to hold the market through our auction outlets in this country, they do not sell below a certain level.

If that same level were established in Scandinavia or Canada, you would have the same result you are referring to but it is the selling policies that are different.

Mr. SCHNEEBELI. The industry is obviously suffering from overproduction. This appears to be true of domestic production as well as foreign producers.

Do you feel there is foreign as well as domestic overproduction?

Mr. PLAISTED. Our production has declined drastically in the last 3 years.

Mr. SCHNEEBELI. That is because demand has gone down.

Mr. PLAISTED. The demand has gone down for the several factors as Mr. Woodley mentioned.

Mr. SCHNEEBELI. It seems to me you can get relief, either of two ways, have a quota or a tariff.

Mr. PLAISTED. This is what we think. We would like the committee——

Mr. SCHNEEBELI. Most of the quotas I have seen have been based on rather recent years. In steel in 1966, 1967, 1968. If we used these figures for the mink industry, it would not help you much.

Mr. PLAISTED. There would not be a marked decrease in skins.

Mr. SCHNEEBELI. 1966, 1967, 1968 were the big years so the figures suggested for other industries would not be of help to your industry.

Mr. PLAISTED. No, sir.

Mr. SCHNEEBELI. Do you have a suggestion as to which years you would like to have?

Mr. PLAISTED. I think in some of the bills pending before your committee, the bills are based on a percent of the domestic market.

Mr. SCHNEEBELL. Percent of the domestic market.

Mr. PLAISTED. That is right, that would be enjoyed——

Mr. SCHNEEBELL. How does that compare to the present percentage?

Mr. PLAISTED. The one series of bills, I believe, is at 40 percent——

Mr. SCHNEEBELL. Do you have the proposal?

Mr. PLAISTED. Whereas, as you will note on table 1, the ratio of imports to consumption for the last year was 45 percent.

Congressman Nelson's——

Mr. SCHNEEBELL. So, all you are asking is a 5-percent reduction in the present imports?

Mr. PLAISTED. The other bills pending before your committee suggest a 30 percent.

Mr. SCHNEEBELL. What are you suggesting?

Mr. PLAISTED. We are suggesting at this juncture 30 percent. When Congressman Byrnes and Congressman Byrnes' bills were first introduced, that was a year ago before we were in the situation we were in today and they had 40 percent but we can not live with 40 percent today.

Mr. SCHNEEBELL. You are asking for a cutback from 45 to 35 percent in domestic usage.

Mr. PLAISTED. Yes, sir; a decrease of 15 percent.

Mr. SCHNEEBELL. You are asking for a 33-percent decrease. With our present mink production facilities, can we make up that 33 percent?

Mr. PLAISTED. We have to revive the market.

Mr. SCHNEEBELL. Is the mink industry in a position to make up the difference if we cut back one-third in our imports?

Mr. PLAISTED. Do you mean from the production standpoint?

Mr. SCHNEEBELL. Can we raise that many more pelts?

Mr. PLAISTED. If the market is revived; yes.

Mr. SCHNEEBELL. Suppose we arbitrarily decided to go to 30 percent; that cuts off one-third of the present imports. Is the domestic production able to take care of this deficiency?

Mr. PLAISTED. Yes, sir; the production facilities are here.

Mr. SCHNEEBELL. Even with the people who have gone out of business.

Mr. PLAISTED. Yes; the facilities are still there.

Mr. GIBBONS. Mr. Broÿhill.

Mr. BROÿHILL. I am sure some of the ladies of this country who just received an anniversary present will be quite upset by Mrs. Griffiths' statement that mink coats are going out of style.

Mrs. GRIFFITHS. I think I did a lot for all of the husbands here.

Mr. BROÿHILL. It might becoming too late, though.

Mr. Woodley, you mentioned a \$200 figure for the cost of a mink coat and a \$500 figure and then the figure of \$3,500 and \$35,000 was mentioned.

What causes the spread and the price range of a mink coat? Is it the cost of the pelt or the design or the distribution? What part of that cost does the rancher or breeder receive?

Mr. WOODLEY. I think the cost of the raw product purchased by the furrier at auction would, first of all, give him an ability to perhaps sell more at a lower price. It raises competitive situations in the in-

dustry and if a man has to pay \$40 for a pelt and he can get one for \$15, he obviously can not charge the end price that he formerly got on a \$40 pelt which might mean a \$3,500 coat. I am just giving you a rough example.

Then, if he can buy a \$8 mink or \$6 mink, wherever it is from, and some members of the fur industry could see a way to make a buck and turn out a low item hoping to get turnover—

Mr. BROYHILL. Am I to understand that a coat in one place could have a price of \$1,000, and in another place a price of \$4,000, and the difference could be in what that person was able to obtain the pelt for rather than the quality of the pelt?

Mr. WOODLEY. First of all, and secondly, the temptation to put inferior workmanship and cut corners in the manufacture of a garment since a lot of that appears underneath. That would have to be examined by an expert by removing the lining where one sees the workmanship.

There are so many other ways of cutting corners honorably in the manufacture of a mink garment that the existence of low-priced mink gives or touches off a round of corner-cutting on production and thus one will find very low-priced mink items.

When I mentioned \$200 earlier, I did not mean a mink coat for \$200. I referred to a stole or perhaps a small garment.

I did say we had seen this year mink coats for the unheard of price of \$550, I believe one cut-rate store offered them at.

Mr. BROYHILL. Do I understand that, in the \$500 coat, there would be the same quality of pelt as you would have in a higher priced coat?

Mr. WOODLEY. No. The low-priced item—

Mr. BROYHILL. The quality of workmanship—

Mr. WOODLEY. The low-priced item would have inferior quality.

Mr. BROYHILL. What governs the quality of the pelt? Is that in the breeding?

Mr. WOODLEY. A mink rancher could answer that more expertly than I but my knowledge would mean since the item was sold at auction, the buyer would take into consideration the color of the mink, the clearness which is supposed to be an attribute, and the size of the pelt and the quality of the fur, the depth and richness of the fur.

Mr. BROYHILL. Are all of the colors of the mink pelt made up in the breeding or is any dye ever used in bringing out the color?

Mr. WOODLEY. There is no dye used.

Mr. BROYHILL. What about the white mink?

Mr. WOODLEY. It is purely a factor of genetics. If they breed gray to gray, they get gray. They know what they are going after unless a change appears such as happened in Wisconsin. If they found a red, white and blue mink, all in one pelt, that would be a major breakthrough but that has not happened yet.

Mr. BROYHILL. What about the auctions Mr. Gilbert referred to a moment ago? Do foreign buyers participate in those auctions?

Mr. WOODLEY. Indeed they do.

Mr. BROYHILL. Are they buying U.S. products?

Mr. WOODLEY. Yes.

Mr. BROYHILL. Does that have an effect on the market insofar as the U.S. breeders are concerned?

Mr. WOODLEY. It is very helpful and we were the first organization to try to develop a worldwide market for mink, ours being the first

in being at the time. Having had a head start and having established a standard of American mink as fine quality, many people from abroad come and attend our auctions from Switzerland, Italy, France, Great Britain, South Africa, Australia and so on.

Mr. BROYHILL. Would that not have an effect on your foreign market?

Mr. WOODLEY. I do not think so because our exports are usually taken by countries who either do not produce mink at all—Australia does not to my knowledge and no live animals have ever been imported into Australia—and so little of it is produced in the countries I mentioned, we sell little or no mink to Scandinavia which is the world's largest producer.

In turn, I am told they consume very little of their own product but export it.

Mr. BROYHILL. If that is the case, why would not our minks, competing with the imported minks, have the same factor as far as the quality is concerned? Why would it not be the same for the foreign buyer?

Mr. WOODLEY. European or Scandinavian or Roumanian minks are bought but the better houses from abroad have to take a position in buying and having in stock American mink because of its superior attributes.

Mr. GIBBONS. Mr. Burke.

Mr. PLAISTED. May I have just 30 seconds to reply to Congressman Schneebeli's question for the record?

Mr. GIBBONS. Yes, sir.

Mr. PLAISTED. I believe his last question was, what would be the effect of the present bills pending before the committee insofar as setting or regulating the number of imports.

In Congressman Nelson's extended remarks made before the House on Thursday, June 4, 1970, he made this point as to the bill that Congressman Nelson introduced:

The Mills bill would establish a base year for imports of leather and textiles at 1967-68 because the remedy is so late in coming I have selected the base year of 1959-60 for application of mink imports. The imports of that year would represent a level of 2,810,492 pelts a year or a figure equal to 28 percent of domestic consumption last year.

Mr. GIBBONS. Mr. Burke.

Mr. BURKE. No questions.

Mr. PLAISTED. Thank you very much for your time and attention, gentlemen.

(The following statements were received for the record:)

STATEMENT OF DAVID W. HENDERSON, EXECUTIVE SECRETARY, THE NATIONAL BOARD OF FUR FARM ORGANIZATIONS

Mr. Chairman and distinguished members of the committee.—As we left you on June 26, 1968, during your hearings on trade policy, domestic mink ranchers and reached a point of desperation in their frustration to protect their uniquely new and native craft. Nearly two years have added much evidence to the impending bankruptcy which we described to you at that time.

Auction prices have fallen far below cost of production. Another thousand ranchers have been forced out of business. The base from which money for rebuilding consumer demand must be raised has shrunk radically, since it must come from the rancher himself.

Imports, peaking in unheard of quantities in 1966, without carrying any of the burden of market development, broke the back of the domestic ranching industry by sheer oversupply, but also, in doing so with cheap, often undesirable mink pelts which were spread out far and wide as trim on fur garments, often of mediocre design and craftsmanship, gave the "queen of furs" a bad name. Since that time the consumer has become cautious of wearing mink and consumption has fallen more than twenty-five percent!

The market has become so depressed from this shrinkage of demand that it is no longer profitable even to import cheap foreign production. The trimming trades who once gulped up millions of these poor grade mink pelts and threw them recklessly out on the mass market to the detriment of the fashion image of fine American mink, have backed consistently away from the market with consequent radical downward adjustments to the whole price structure.

To illustrate the erosion of the American market we introduce an exhibit titled "Growth and Decline of the U.S. Mink Market in the Sixties." The supporting data of the chart is drawn largely from government sources. From this data it is possible to arrive at a close approximation of the total number of mink pelts consumed in the U.S.A. in any one year.

At the top of the chart a solid black curve illustrates this consumption, beginning in 1960 with 5,937,000 mink pelts, of which 47.9 percent were imports. At the peak of 1966, imports also peaked in volume and had captured 54 percent of the consumption.

In this interval imports "rode up" a new and unique market without paying any of the freight. Market promotion had been provided solely by North American ranchers. In a further give-away, government permitted duty-free entry on this overload by continuing to pin mink pelts to the free-list.

The rest of the story on Exhibit One is quite obvious. After foreign production broke the back of the domestic market it moved on to other lands, hoping to cash in on other rising affluence elsewhere—again without paying the necessary freight for market development.

Europe was next—an area promotionally "seeded" by American ranchers as early as the 1940's. Production was increased; things went well for a time—but today Europe shows the same signs of market erosion as developed in the U.S.A. and characteristically—again—the trimming trades are backing off, wary of the erosion of mink's fashion image.

If there is to be a rebuilding of our own market, ranchers must have the assurance that another flood of non-supporting foreign production can be tamed to a moderate flow. They have asked Congress for this in the 46 Mink Import quota bills now before your Committee, of which H.R. 148 by your Mr. Burke, and H.R. 153 by your Mr. Byrnes are pilots. (A list of these co-sponsors from their many states is attached herewith and made a part of this statement.)

Failure to erect such import controls will only hasten the day when foreign production, having soured the European markets, will literally "dump" its excess mink pelts into a wide open—but also previously badly weakened American market. That day could be just around the corner—and if it comes, total annihilation will end American mink ranching for good—another unique domestic achievement given away, in this case, absolutely free, to foreign producers.

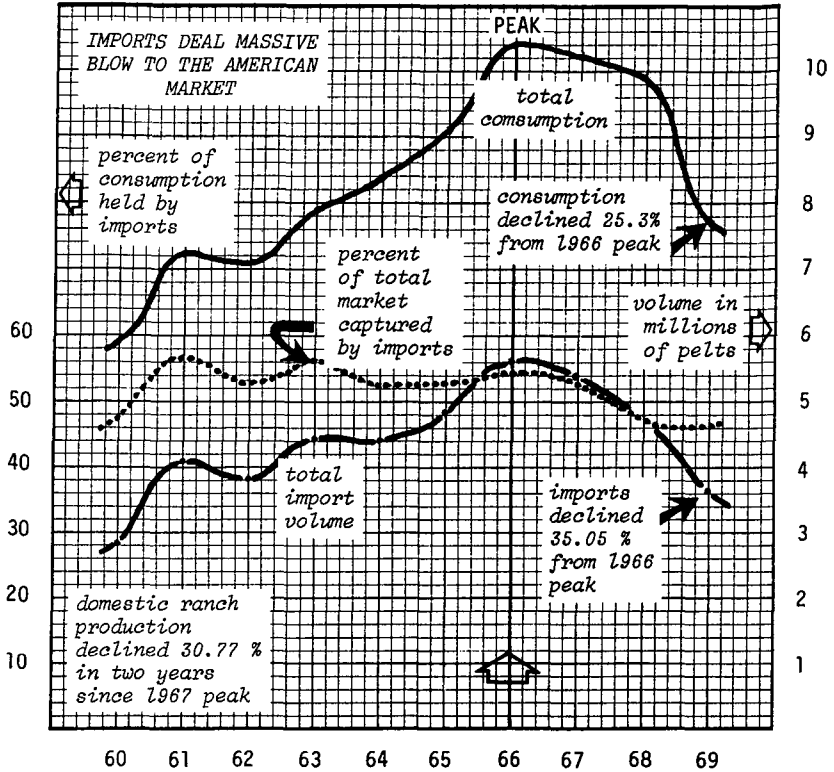
Mr. Chairman, our final Exhibit is a repeat from our previous testimony, which you probably will recognize, but two more years of supporting data have made it more revealing than ever.

In two years since we met here, domestic production has fallen over thirty per cent, directly reflecting our statement to you that this wide-open foreign competition was lethal. Another thousand ranchers have gone "belly-up", as we said. The price structure which we characterized as at a "disaster plateau" wavering around a gross average of \$15, has now sunk to a \$11 level with huge quantities of mink never even reaching the point of a bid in the auction rooms.

To those who would point to the radical decline of imports (35% from their peak in 1966) as an easement of our predicament, we would say, "What else could foreign production do but retire from a free market which it soured by sheer oversupply?"

If this increasing foreign production has not found more green pastures outside the United States—and signs are that it has not—it will be back again soon—and finding no restrictions—will crush out what is left of a once proud and self-sustaining little segment of old-fashioned American enterprise.

GROWTH AND DECLINE OF THE U.S. MINK MARKET IN THE SIXTIES



CALCULATION OF APPARENT CONSUMPTION OF MINK PELTS IN THE UNITED STATES 1960-1969

year	DOMESTIC PRODUCTION			PLUS TOTAL IMPORT VOLUME	LESS EXPORTS			APPARENT CONSUMPTION	
	ranch	wild	total		domestic	re-exports	total	volume	percent imports
1960	3,716,000	355,000	4,073,000	2,846,000	882,000	100,000	982,000	5,937,000	47.94
1961	4,020,000	297,000	4,317,000	4,131,000	1,018,000	185,341	1,203,341	7,244,659	57.02
1962	4,169,000	300,500	4,469,500	3,825,000	976,000	138,777	1,114,777	7,179,723	53.28
1963	4,278,000	366,000	4,644,000	4,460,000	1,088,000	99,721	1,187,721	7,916,279	56.34
1964	4,700,000	317,000	5,017,000	4,445,000	901,000	101,532	1,002,532	8,459,968	52.54
1965	5,300,000	287,000	5,587,000	4,882,000	1,200,000	127,229	1,327,229	9,141,771	53.40
1966	5,700,000	234,000	5,934,000	5,675,000	1,124,000	75,931	1,199,931	10,409,569	54.52
1967	6,000,000	289,000	6,289,000	5,426,000	1,312,500	134,878	1,447,378	10,267,622	52.85
1968	6,500,000	181,000	6,681,000	4,781,000	1,396,000	74,000	1,470,000	9,992,000	47.85
1969	5,500,000	180,000	5,680,000	3,685,790	1,502,854	88,000	1,590,854	7,774,936	47.41

Estimates of domestic ranch production through 1967 by the U. S. Tariff Commission. Estimates of the wild catch by the Fish and Wild Life Service, U. S. Department of Interior. All export and import data by the U.S. Department of Commerce.

Determination of total consumption of mink pelts in the United States for any one year is made by adding total imports to total domestic production, then subtracting total exports. "Re-exports" as shown above represent foreign merchandise entered temporarily into the United States for shipment abroad.

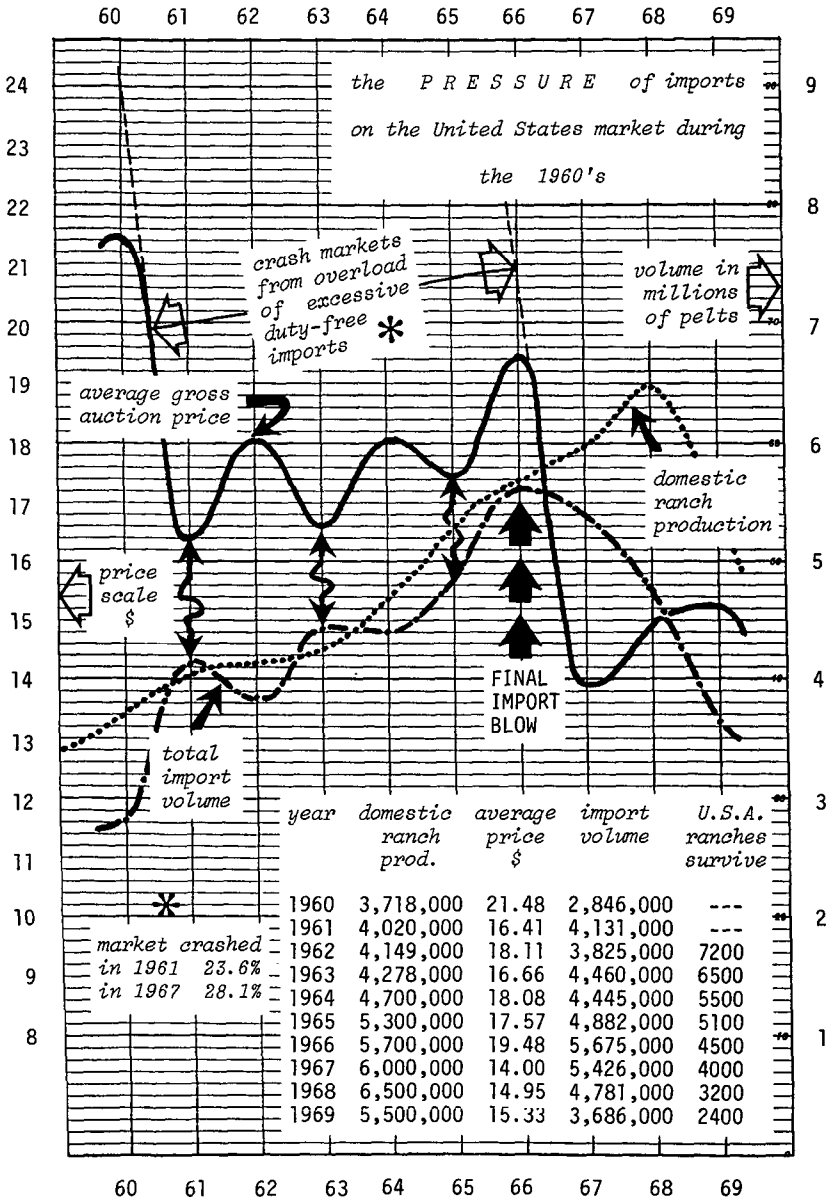
THE STEADILY GROWING SPONSORSHIP OF THE MINK QUOTA BILL

IN THE NINETY-FIRST CONGRESS

as of FEBRUARY 1, 1970

ARIZONA	John J. Rhodes, 1st	H.R. 12710
COLORADO	SEN. Gordon L. Allott	S.2168
	SEN. Peter H. Dominick	S.2168
CONNECTICUT	SEN. Thomas J. Dodd	S.2168
	Robert N. Giaimo, 3rd	H.R. 13224
	SEN. Abraham A. Ribicoff	S.2168
	William L. St. Onge, 2nd	H.R. 8816
	E. G. Daddario, 1st	H.R. 14276
IDAHO	James A. McClure, 1st	H.R. 2093
ILLINOIS	Frank Annunzio, 7th	H.R. 3246
	George E. Shipley, 23rd	H.R. 9469
INDIANA	Richard L. Roudebush, 5th	H.R. 15144
	William G. Bray, 6th	H.R. 15318
IOWA	SEN. Jack Miller	S.2168
MASSACHUSETTS	James A. Burke, 11th	H.R. 148
MICHIGAN	Philip E. Ruppe, 11th	H.R. 2517
MINNESOTA	John A. Blatnik, 8th	H.R. 10635
	SEN. Eugene McCarthy	S.2168
	Ancher Nelsen, 2nd	H.R. 9923
	John M. Zwach, 6th	H.R. 9342
NORTH CAROLINA	Roy A. Taylor, 11th	H.R. 12713
OHIO	William E. Minnshall, 23rd	H.R. 1222
	J. William Stanton, 11th	H.R. 13662
OREGON	SEN. Mark Hatfield	S.2168
	Wendell Wyatt, 1st	H.R. 2517
PENNSYLVANIA	Frank Clark, 25th	H.R. 13683
	Thomas E. Morgan, 26th	H.R. 7999
	John P. Saylor, 22nd	H.R. 2513
	SEN. Hugh Scott	S.2168
	J. Irving Whalley, 12th	H.R. 9083
	Joseph P. Vigorito, 24th	H.R. 14961
	Gus Yatron, 6th	H.R. 14750
SOUTH DAKOTA	E. Y. Berry, 2nd	H.R. 5951
	SEN. George S. McGovern	S.2168
	SEN. Karl E. Mundt	S.2168
	Ben Reifel, 1st	H.R. 11421
TENNESSEE	John J. Duncan, 2nd	H.R. 5520
	James H. Quillen, 1st	H.R. 3830
UTAH	SEN. Wallace F. Bennett	S.2168
	Laurence J. Burton, 1st	H.R. 3659
	Sherman P. Lloyd, 2nd	H.R. 4825
	SEN. Frank E. Moss	S.410
VIRGINIA	William C. Wampler, 9th	H.R. 10761
WASHINGTON	Floyd V. Hicks, 6th	H.R. 13276
	Catherine May 4th	H.R. 9310
	Lloyd Meeds, 2nd	H.R. 13276
	Thomas M. Pelly, 1st	H.R. 13276
WISCONSIN	John W. Byrnes, 8th	H.R. 153
	Glen R. Davis, 9th	H.R. 2352
	Robert Kastenmeier, 2nd	H.R. 12896
	SEN. Gaylord Nelson	S.2168
	David R. Obey, 7th	H.R. 13497
	SEN. William B. Proxmire	S.2168
	Henry C. Schadeberg, 1st	H.R. 5260
	William A. Steiger, 6th	H.R. 6551
	Vernon W. Thomson, 3rd	H.R. 8983

IMPORTS EXERTED CONSTANT PRESSURE ON THE AMERICAN MARKET TILL IT BROKE



STATEMENT OF CHARLES H. LOW, EXECUTIVE COMMITTEE MEMBER, NATIONAL
BOARD OF FUR FARM ORGANIZATIONS

My name is Charles H. Low, and I own and operate a mink farm in Stoughton, Massachusetts. I am a member of the Executive Committee and Past President of the National Board of Fur Farm Organizations. I am submitting this statement in support of HR-148 and the many companion bills before this Committee calling for controls over the unrestricted importation of mink pelts.

Mink is native to North America only, and it was the inspiration and energy of American mink farmers that developed this wild animal into the most popular of all furs in the fashion world. The market for this beautiful, durable and flattering fur was developed by an ambitious and far-reaching consumer advertising campaign subscribed to by the American producer himself through deductions from his pelt sales. More than \$20 million have gone into this campaign in the last 25 years. In this way we created an overwhelming demand for our product and established the possession of mink as every woman's fondest dream. The Scandinavians and others, quick to recognize that this market was completely unprotected, began to raise mink for export (the use of mink in these countries is negligible).

In 1960 when imports reached approximately three million pelts, the Scandinavian producer organizations, breaking all precedents, announced that mink offered in their public auctions would be sold without regard to price. This "free selling" was initiated, it seems quite evident, to capture the American market by disrupting the conventional system of auction selling.

Following this change in selling policy, imports rose in one year from 2,846,000 in 1960 to 4,131,000 in 1961. Then imports remained fairly constant until 1966 when the rapid expansion of mink production in Scandinavia, combined with a softening of the European economy, resulted in an excess of pelts which the Scandinavians sold to American buyers at any price they could get. The flood of 5,675,000 imported pelts broke the American market dramatically, forcing American producers to sell their pelts below the cost of production in order to move them. Since the Scandinavians made no attempt to maintain a market level, and sold large quantities below their cost of production, American ranchers were the victims of dumping—morally, if not legally—for we lost 54% of our market to imports, and the United States auction price plummeted below our production cost. In that one year Scandinavian imports increased 23%. Denmark alone increased her imports to the United States 28% and Norway over 38%. In the same period, production on American ranches rose only a mere 9%.

Our market has continued to deteriorate steadily since that dumping, and the number of American ranchers has fallen from 7200 in 1962 to 2400 in 1969. The continued influx of cheap foreign pelts has tarnished the prestige image of mink which American ranchers have so carefully nurtured over the years through high fashion advertising and promotion, making the product less desirable and eroding our market. All this, combined with a major decline in the stock market, high interest rates and tight credit, has placed our business in a condition bordering on bankruptcy.

Our foreign competitors have sold 75-80% of their 1969 crop at this time in contrast to our sale of approximately 50%. Our producers are having difficulty getting bids on their pelts, and where goods have been sold they are averaging 30% below last year's disastrous level—at a take-home price to the rancher of slightly over \$9.00 per skin. This represents a loss of \$5 to \$7 on every skin he sells. Another 30% of our growers have been forced out of business this year, and we expect many more will follow because of the utterly chaotic conditions in our market. Banks are refusing further credit and are calling loans that can't be paid. The entire industry faces ruin, taking with it suppliers of feed, equipment and other supplies. The New York Auction Company, one of our two major auction outlets, has announced it will make no more production loans to ranchers and will phase out its auction operation later this year.

Realizing the importance of world trade to our country's economy, we do not ask that mink imports be cut off. We ask only that they be given free entry to the amount of 30% to 40% of our domestic consumption with a 50% ad valorem duty on all pelts imported in excess of the quota. If the 50% ad valorem duty is added to the cost of the fur, the foreign mink skin can still compete with the domestically produced pelt in most instances when a comparison is made in production costs. Foreign producers do not have the high taxes, labor and feed costs of the American producer.

The quota will do much to stabilize the American fur market by establishing in advance approximate numbers of pelts to be manufactured, both from local and overseas sources. American producers would be free of the threat of dumping, and the foreign producer could more easily plan his production with the knowledge that only a certain amount could be aimed at our market. As that market is further expanded, the foreign producer would enjoy his fair share of that expansion.

Most of our producers operate family type farms, producing 2000-5000 pelts a year with one or two employees. Whereas it takes 15 to 20 years to establish a uniform herd and equip a farm for this size operation, many of the owners are 45 to 60 years old with no other training or skills to fall back on when they fail. Most are far in debt so the sale of their farms will only satisfy their creditors with nothing left for the retirement they have saved and planned for. They find themselves in this tragic situation through no fault of their own. They are the victims of an unfair and inconsiderate trade policy.

I must be frank and admit that I find myself in this identical situation with no hope for the future. I have operated at a loss for the last three years, strengthened only by the faith that in time our government would see our desperate plight and have from extinction this small independent American industry which has asked no help and received no help.

We wish to thank the Committee for the opportunity of presenting our problems in these hearings on trade proposals. We feel our situation is a classic example of what uncontrolled foreign imports can do to an unprotected American industry. We hope that in your deliberations you will give sympathetic consideration to our request for quota protection and that you will find some means, acceptable to the Administration, that will save what is left of our industry.

Mr. GIBBONS. Congressman Findley, we welcome you here. Just identify yourself for the record and you may proceed as you wish.

STATEMENT OF HON. PAUL FINDLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. FINDLEY. I am Paul Findley, Member of the House from the 20th District of Illinois.

I do have a statement with an appendix which I would appreciate being placed in the record but I would like to draw your attention to certain parts for the record.

It is a privilege to be here this morning to discuss the subject of import quotas and trade expansion. I believe that this may well be the most important subject with which the committee and the Congress deal this year.

One approach before this committee would provide for continued trade expansion and the prosperity, both at home and abroad, which such can bring. The other approach of imposing import quotas on certain products, however, would have a direct adverse effect on every single American who wears clothes and shoes, and who doesn't? Beyond that, it may potentially mark the opening shot in a trade war which could cause stagnation of the world economy as nations vie with each other to erect trade barriers which would divide and fragment the free world.

Before Americans decide they want to take the enormous risks inherent in quotas, or better said, before we, in Congress, decide to impose that risk upon them, it is important that we consider carefully what may result. It do not pose as an expert. My political judgment may also be questioned. After all, by this appearance I attempt to present a case against restrictive quotas to a committee, 13 of whose members, including the chairman, have sponsored such a bill. A political expert might at least hesitate before taking a lonely position

opposed to 306 Members of the House who have petitioned the President asking him to use his full weight to seek "voluntary" quotas on shoe imports.

Yet, I am here today, because I believe that this issue is so important to the American people, as consumers and as working class citizens, as well as to the long-term standing of our Nation in world affairs that it simply must not be decided upon narrow grounds or for the exclusive benefit of one or two special interest groups.

Should imports of shoes and textiles be restricted, as proposed in H.R. 16920?

The bill would set quotas for 1970 on the average of imports during 1967-68 and beyond this would limit them according to the ups and downs of the U.S. market. For textiles, the overall average would be about 2.9 billion square yards, a rollback from 1969 imports of some 3.6 billion square yards. For shoes, the average would be about 185 million pairs, a reduction from the 1969 volume of 195 million pairs.

Are these quotas in the national interest? Are they in the interests of the American consumer, or agriculture, or the working man or the businessman?

In each case, the answer must be no.

Our national economic life today is dominated by the problem of inflation. No domestic issue is more important, no issue affects more people adversely, no issue presents a greater challenge to our society. Yet, quotas, and the higher consumer costs they will spawn, will only fuel the fires of inflation and thus harm the national interest.

Quotas remove one of the dampening influences upon price increases because foreign competition would no longer tend to hold domestic prices down. For example, it has been estimated by the National Retail Merchants Association that quotas on textiles will cause a 15 to 25 percent rise in some clothing prices. Similar inflationary effects upon prices can be expected in other industries where restrictive trade practices are imposed.

Nor will quotas serve consumer interests. Protectionism taxes consumers to protect producers and thereby destroys his purchasing power; it also raises the costs of the protected goods he must purchase. The consumer gets hit the hardest, and from three different directions.

In this particular case, this bill proposes to hit hardest those consumers who can least afford it—the poor and those with middle incomes. Of the three basic essentials of life, food, shelter, and clothing, this bill proposes to raise the price of the shirt or blouse on your back and the shoes on your feet. The poor who have difficulty paying for shoes now will be worse off in the future.

The lower a family's income, the greater the proportion of that income must be spent upon shoes and clothing. Quotas make the pinch even tighter and have a sharp regressive character that hurts poor people worst. This bill is certainly not in the interests of the American consumer, rich or poor.

American agriculture, already in deep trouble in foreign markets, would risk a severe blow from this bill. In the past 3 years, after record crops have produced surpluses here at home, U.S. exports of farm products to Europe's common market have fallen by \$300 million, due in large part to European protectionism and rising agricultural production on the continent. So far, the United States has been

able to stave off proposals which would greatly restrict the importation of American soybeans. However, the moment the United States imposes quotas on shoes and other products, we will have opened the door to a flood of retaliatory protectionist measures worldwide, including the common market, measures which will affect all American businessmen, all American workingmen, all American consumers, and certainly the American farmer whose foreign markets will be hurt.

And we risk severe harm by placing quotas on textile imports from Japan, the largest importer of U.S. agricultural products, now totaling almost \$1 billion annually. This year Japan has become our first billion-dollar agricultural customer in history.

In fact, one of the great ironies of this quota legislation is that producers of leather and cotton fibers, who are a part of the industries seeking protection, will be directly hurt by the proposed quotas. Last year Japan exported \$285 million worth of textiles to the United States, but purchased fully one-fifth of the raw cotton exported by us, valued at \$52 million. Of the \$84 million worth of shoes Japan sent to us, Japan returned \$54 million through the purchase of hides and skins to make such products. It is a cinch that quotas imposed to keep out Japanese shoes and textiles will be met on their part by drastic reductions in the purchase from the United States of the raw materials which go into these products. Japan can buy cotton and hides elsewhere.

The workingman is first and foremost a consumer, and therefore, he will suffer from protectionist policies resulting in higher prices on the goods he buys and higher taxes. Indeed, the interests of people directly involved in the local industry seeking protection are mixed. Let me illustrate from personal experience.

Last year I received several hundred postcards from employees of Brown Shoe Co. in my hometown, calling attention to the problem posed to their factory and their jobs by shoe imports from Italy and Japan. Several weeks later I had a chance to visit personally with one of the people who had written to me. That person, a production-line employee, volunteered this comment, "I can see two sides to this problem. We have to buy shoes for our family, and frankly, it would hurt if we could not buy lower priced imports. We simply could not keep everyone in shoes as well as we do now."

The average businessman will also be badly hurt should a wave of protectionism sweep the country. With everyone else, he would suffer the added dangers from inflation and the higher prices he must pay for his purchases and therefore pass on to his customers. In addition, artificially higher prices stimulate the search for substitutes for his product. Finally, since quotas do not remedy the basic structural problems in an industry, but only prolong them, they provide no real lasting relief for the businessman. He must live in constant fear that the quotas will be removed, unable to build a sound economic base for his business.

With all of these apparent liabilities to the American consumer, farmer, workingman, and businessman, why is Congress today considering inflicting quotas on an unaware and unsuspecting public?

The answer is that for the first time, two industries which have assembled over recent years a powerful constituency on Capitol Hill have joined forces.

One is the shoe industry. This is an industry with a relatively high input of labor. Automation of its manufacturing process is severely limited by the lack of uniformity in the principal raw material, leather. Compared with most industries, labor-saving techniques in the shoe industry have been almost nil in recent years. Inevitably, shoes imported from countries with low-cost labor, like Japan, present severe competition.

This competition has not killed U.S. shoe production; indeed U.S. production has remained fairly steady. However, U.S. shoe consumption has been rising steadily, with the increased business going almost entirely to imports.

I am more keenly aware of this problem than some Congressmen, perhaps, because shoe manufacturing is the principal industry in the small Illinois town, Pittsfield, which is my home. Over the years the challenge of imports has been repeatedly brought to my attention.

The other industry in this package is the textile producers. For my part, I have come to respect the political power of textile interests. They do not represent the broad interests of American agriculture. They do not represent consumers. They certainly do not represent the international best interests of our country.

Our most scandalous agricultural program, the one for cotton, is largely the creature of the same textile interests now clamoring for import quotas. This program costs the taxpayers nearly a billion dollars a year which, unbelievably, equals the market value of the entire U.S. cotton crop.

Over the years, the price of domestic cotton was kept—by the taxpayer—well above the world price. As a consequence the demands for imported cotton fabrics increased. Fundamentally, this short-sighted anticotton policy helped underwrite the cost of research and induced the successful development and expanded use of cheaper synthetic fibers. This uneconomic cotton policy hastened the day of reckoning for cotton and textile interests alike.

In 1964, cotton mills had a chance to change the course of events, to make their products more competitive in both domestic and foreign markets. Thanks to new legislation, they received a price reduction of 30 percent in raw material cost. Instead of passing even part of this advantage on to the consumers, the price average of basic cotton constructions continued a steady upward trend. Not even the slightest dip occurred to show when the lower price of raw cotton became effective.

Now, this industry wants additional Government subsidy, this time in the form of an absolutely protected market. It seems to me that it is time to call a halt.

It will undoubtedly be argued that a limited class of workingmen and businessmen, that is, those who might actually lose their jobs or be forced to close their doors, will be benefited, at least in the short run, from protectionist policies. However, the interests of local industry, while important, should not be overriding. In order of importance, here are the factors I feel should be considered in judging a policy question on import quotas:

1. Impact on the Nation's economy. Here the potential loss of U.S. jobs and profit earnings has to be balanced off against the fact that quotas by their very nature are inflationary, and the possibility that one quota measure will be followed with others.

What is the profit situation of the textile industry which is clamoring for quotas and the higher prices they will bring? Fortune magazine's listings showed that total sales for textiles increased 11.3 percent in 1968 and 20.8 percent in 1969. In 1968 the textile industry led all other industries in the Nation in profit increases, up a phenomenal 32.2 percent. Following this tremendous increase in 1968, profits declined 1.9 percent in 1969 with the subsequent downturn in the economy. For the apparel industry, profits increased 27.1 percent in 1968 and, despite the downturn in the economy, were up 12.8 percent in 1969. If individual plants are experiencing difficulties, the industry as a whole is indeed strong and healthy. The Wall Street Journal recently summed it up this way:

"In these inflationary times, import competition is among the few factors working toward holding down prices."

Price disciplines are eased in direct ratio to quota levels. Quotas may postpone the day of reckoning, but they will also make it more severe when it finally comes, and it will come.

2. Impact on average citizen. Here job loss to a few has to be balanced off against the fact that quotas tend to boost the cost of living to all Americans on the item, which next to food is the most essential in the family budget—clothing. Quotas on textiles and shoes definitely would tend to impose important additional budget pressures on a large number of families of medium and low income, and this at a time when inflation has already pressed many families to the wall.

3. Impact on our international objectives. Through foreign aid, Food for Peace, Peace Corps and related activities, our country has sought to encourage economic development of other countries and particularly in areas of national advantage. We oppose the tendency of the common market to become highly protective. We have sought the expansion of trade relations with most nations.

Trade restrictions, especially on items produced in areas where wage rates are low, work against these objectives.

As the world's leading trading nation, we risk retaliation and the possibility of escalating trade warfare, by meeting a relatively limited domestic problem with import quotas.

As the President stated in his Trade Message to Congress in 1969:

* * * Any reduction in our imports produced by U.S. restrictions not accepted by our trading partners would invite foreign reaction against our own exports, all quite legally. Reduced imports would thus be offset by reduced exports and both sides would lose. In the longer term, such a policy of trade restriction would add to domestic inflation and jeopardize our competitiveness in world markets at the very time when tougher competition throughout the world requires us to improve our competitive capabilities in every way possible.

It must be remembered that the Smooth-Hawley tariff, a trade protection measure, backfired. Instead of helping to ease U.S. economic depression, it aggravated it. Unable to compete in U.S. markets, other nations raised trade barriers. From 1930 to 1934, the value of U.S. exports dropped 70 percent, and world trade fell by the same.

Not since the Smooth-Hawley days has protectionist fever reached such a peak in the United States as now.

It is my hope that this challenge will be met in an enlightened way by the Congress, first by rejecting the mounting pressures for quotas, and second, by finding ways to reduce still lower the barriers to international trade.

Certainly, it is true that there are instances where local industries have received substantial damage from import competition. But this does not mean that we should prop them up all the higher, at tremendous cost to the taxpayer, so that when they finally fall it will be even worse. Every time we have tried such a policy, we have paid dearly for it.

Instead of turning to the tried and tired remedies of the past which have reliably brought us only hardship, instead of turning to protectionism and quotas, instead of turning backwards to ideas and policies which have never worked, we must formulate new ideas, we must make every possible adjustment to make foreign trade flourish.

If taxpayers' dollars are to be used to aid local producing units in difficulty, let it be in the form of adjustment assistance which recognizes that nations may have different competitive advantages. Instead of taxing to prop up and sustain inefficient industries, let Government help them find new areas of competitive advantage which will allow them to once again compete in the world market. We have never done this with textile interests and our failure to do so has cost taxpayers precious billions of dollars badly needed for other purposes. It has also bred an industry totally dependent upon Government checks, Government handouts and political favors.

Beyond whatever assistance Congress may provide to affected industries, we must also continue to look forward, not backward, in our tariff reduction plans for the future.

Tariff reductions and reduction of other trade restrictions by means of general international agreement were considerable under the recently-concluded Kennedy round negotiations.

However, because all parties must agree to whatever is done, reductions of this sort are far less than many of the parties would be willing to accept. Like wartime ocean convoys, the negotiations can move only as fast as the slowest party.

Another round of negotiations, right on the heels of the other, would produce little if anything.

At the same time, a will to make substantial advance may exist among the principal industrialized nations. This possibility should be explored, to see if the nations of OECD and perhaps others will join together in staged reductions of remaining barriers to trade. This, of course, is authorized under GATT.

The European Economic Community, which has moved decisively to remove almost all barriers to commerce among its six members, is the best known of the major trade associations.

Less well known is the European Free Trade Association, or the outer seven, as it has sometimes been called. With Britain as the principal partner and Iceland as the recently added eighth member, these nations have been doing business with each other—except in the field of agriculture—on a free-trade basis for several years. The project has been a success.

Unlike the Common Market, the EFTA association permits each nation to establish whatever individual trade policies it wishes external to the group of seven nations. External policy on tariff, quota and other measures vary from one nation to another. But in dealing with each other, commerce is almost as unrestricted as between Indiana and Illinois.

I mention this because a number of people prominent in commerce and politics in Britain have been undertaking an intensive study of the possibility of extending the free-trade area concept to include the United States, Canada, Japan, and perhaps other nations.

It is being explored by some as an alternative to British entry into the Common Market. Instead of moving behind the protected barriers of the Common Market, Britain and these other nations would agree, on a staged basis, to join with the United States and others in removing all barriers to commerce from one to another—whether the barriers be in the form of tariffs, quotas, border taxes, internal taxes, or other devices.

It is an idea that thoroughly merits exploration and, frankly, I am strongly attracted to the possibility of a great free-trade area encompassing most of the major industrialized nations, letting each compete freely for markets throughout the entire area.

In my view this is the rational direction to take—forward toward freer trade, rather than backward to protectionism.

I will add just one further comment and this is in regard to the effect of the quota proposal on Japan.

On December 3 of last year the Japanese Minister to the United States spoke to the Farm Magazine editors in Chicago. He referred to a recent report issued by the Japanese Minister of Agriculture and Forestry and stated:

Rising agricultural needs by 1977 will include 86 percent more soybeans, 22 percent more wheat and 67 percent more feed grains as well as sharp increases in other products.

The substance of my recommendation is that we should inject a new element into our negotiations with Japan, not the element of quotas but rather the element of U.S. agricultural exports.

This would give Japan an opportunity to exercise its tremendous buying powers and use one of its great sources to develop a sounder, more profitable long-range relationship with the United States.

Thank you, Mr. Chairman.

(The appendix referred to follows:)

APPENDIX.—U.S. SOYBEAN PRODUCTION BY LEADING STATES

(In millions of bushels)

State	1964	1969	State	1964	1969
Illinois.....	143.3	220.9	Alabama.....	3.7	14.7
Iowa.....	121.2	174.3	Kentucky.....	5.8	13.5
Indiana.....	66.2	104.8	Michigan.....	7.5	11.8
Arkansas.....	61.1	86.6	Georgia.....	2.4	11.2
Missouri.....	58.6	81.9	Virginia.....	7.6	9.0
Minnesota.....	57.0	76.0	Texas.....	1.7	7.5
Ohio.....	41.8	67.9	Maryland.....	4.1	6.7
Mississippi.....	24.5	50.3	South Dakota.....	4.0	6.3
Louisiana.....	8.0	30.5	Delaware.....	2.4	4.6
Tennessee.....	13.4	28.6	Florida.....	1.6	4.5
Nebraska.....	12.0	26.8	Oklahoma.....	2.0	3.4
North Carolina.....	16.3	24.2	Wisconsin.....	1.9	3.3
South Carolina.....	17.1	21.5	North Dakota.....	2.7	3.0
Kansas.....	12.0	91.5			

Source: USDA.

Mr. GIBBONS. Mr. Burke.

Mr. BURKE. I welcome you, Congressman Findley, to the committee. Although we are close personal friends, I kind of disagree with your testimony as you can understand. I believe you are acquainted with

the town of Stoughton and the Brocton area. I think what you are saying is what was said at the time the trade bill was put through the Congress and you are practically repeating everything that was said at that time.

Many of us bought that including myself and the shoe people and the textile people but it seems that our negotiators seem to be giving everything away and not asking anything in return and that is the big problem here today.

Now, how do we get around that? If Japan refuses to remove their trade barriers, and you are acquainted with those—the automobile parts—American producers cannot export those to Japan and we find these trade barriers all over the world but everybody seems to be asking us to keep giving away and not getting back something in return.

Don't you believe it is important to have a reciprocal trade policy?

MR. FINDLEY. It does require reciprocity and I am not satisfied with the response Japan has made up to now. I think the record shows gestures on the part of Japan on soybeans. They have made an important move. This reduction from the present 10 percent rate to the new 6.5 percent rate will be effective sooner because of that and I understand that there is to be removal of the quotas on soybean meal at the end of the year.

There is still a duty on soybeans that I regret and this is simply an example of trade restrictions imposed by Japan so I hold no brief for lack of response but I do question the wisdom of the United States responding to this fact by getting into the trade barrier business on an expanded basis. We are the world's leading trade nation. If we take the route of protectionism, I am afraid this will lead the other nations to follow the same course and we would quickly have a stagnation in world commerce well beyond what exists today and this in turn could contribute to the same type of economic disaster that hit the world in the 1930's and I am sure none of us want to see that.

MR. BURKE. The problem is these countries have a policy of protectionism and they are not following the policy we have tried to put across. If they continue their protectionism and we continue a freer trade, this only contributes to a tremendous imbalance in trade. I believe you are acquainted with the economic facts of life as far as the imbalance in trade is concerned.

Since the trade bill was put through our imbalance of trade has dropped from \$7 billion down to \$1 billion. If you took out the economic aid and the military aid and the other type of aid that we are sending overseas—we have actually an imbalance of trade right now—how long can this country stand up and have a drop of a billion dollars a year on the imbalance of trade?

By 1975 it is estimated the imbalance will total \$3 to \$5 billion. How is this country going to stand up economically under those conditions?

MR. FINDLEY. We certainly do not go into trade negotiations with clean hands. Many of our products are highly protected including agricultural products.

This is brought to our attention always when we get involved with trade negotiations in other places. Our hands are not clean and neither are other countries.

The big example before us today is the type of example of leader-

ship that the world's greatest trading nation will supply to the rest of the world.

Mr. BURKE. Do you believe, if these countries do not relent and do not remove their trade barriers, that we should eliminate the American selling price and allow further reductions of tariffs?

Mr. FINDLEY. What we have to always seek is a balance between the interests of our industries and the interests of our consumers and the broader interests of our Nation in foreign policy matters.

While I do not come here as an expert, I am not convinced that there has been a sufficient case made for quotas on the items that are contained in the bill even though these industries have not kept pace with U.S. consumption. I question whether sufficient cause has been established to justify taking this very high risk of retaliatory quotas.

Mr. BURKE. I recognize you as one of the ablest Members of Congress but I do say with 55 shoe factories closing in the past year, and 77,000 people losing their jobs in the textile industry, and the conditions seem to be getting worse, I think that we have to have a reappraisal of our trade policy.

I am for free trade as much as possible, but I cannot see how we can stand idly by and seeing all of these jobs exported overseas. We are liable to end up a Nation of service companies instead of having the great industrial strength that we had over the years.

We had the umbrella people here the other day. There are two remaining.

Over 50 of them having gone out and these two fellows testified last week and one of them expects to go out of business in 3 months. I asked what would be the effect after they are completely wiped out? They said the importers then would be able to raise their prices to the consumers.

I do not know what steps we are going to take. You do not seem to have the answers and the administration has not presented the answers. We are just faced with a real problem of losing all these industries and having nobody employed here in the country and who is going to buy the goods if no one is working—they will all be on welfare.

Mr. FINDLEY. I think the worker and firm adjustment provisions are good and this is the logical route to take and I would hope some consideration could be given to liberalization of the standards which have been ineffective today.

Mr. BURKE. Sixty-five percent of the workers pay will be paid by compensation for 52 weeks.

Take a town like Stoughton or a city like Brockton, if an individual worker is up around 55 years of age and he draws unemployment compensation for 52 weeks, it is almost impossible to train that worker for some other job. Possibly it would take 1 or 2 years and then at the end of 52 weeks he goes on welfare. The cost to the taxpayers being asked for this type of a program which is ineffectual in my opinion—I know in my district once the defense work stops, we are going to be in an awful bind—I cannot see where the people are going to get jobs.

The electronics people testified yesterday here; Westinghouse, Zenith, and most of them testified about the imports that were coming in.

Up in our area we were looking forward to the electronics industry to step in as sort of an economic cushion but now we are going to lose them. We have lost the textiles and the few that are left we are going

to lose them. We lost the shoe factories and now we are losing the electronics firms and the sporting goods outfits have been wiped out.

We have one bicycle firm left in New England and they are about to close their doors unless some relief is granted so I cannot understand where we are going to bring about a correction of the problem.

Unemployment is rising. The administration just raised the debt limit \$18 billion. They have to go out and borrow \$10 billion on the money market which means interest rates are going to be kited up further. They talk about adjustments. I do not know what they are going to do for these firms. They are going to make loans available for them at the going rate which is about 8.5 or 9 percent, I believe, in the commercial market, so I do not see what any hope industry has of getting any assistance or what realistic help the employee will receive.

That is why I differ with you, Congressman Findley. I admire you for the stand you have taken. I think it is a courageous stand in view of the fact that the Brown Shoe Co. in your district has written you cards and everything, but if everybody is unemployed, they will not even be able to buy the cheap shoes.

Where do we get the money to buy the goods if you are not working? You know the old saying, you work to make money to buy food to be strong to make money to buy food, so you can keep strong.

If that cycle is broken, we are in a rather impossible situation.

Mr. FINDLEY. If I may respond, in industries which have a relatively high proportion of hand labor of a relatively low-skill level, those industries, I do not believe, have a very bright future in this country. But there are very few and I do not accept the contention that the shoe industry is necessarily going to stay in that category. The problem up to now has been the lack of uniformity in leather. As shoes go more and more to plastics where uniformity can be maintained, I forecast that automation will move in, move in swiftly and enable shoe factories to bring down the cost of production to compete effectively with imports from other countries.

When Henry Wallace, I believe, was Vice President in the late years of World War II, he forecast that our country's streets would be swarming with unemployed veterans of the war. He could not foresee where jobs would exist for the returning servicemen, and yet our technology has been flexible enough, responsive enough to turn out sufficient jobs. Tomorrow there will be jobs we have not dreamed of today and I am sure that is going to continue to be the case.

This leaves a lot of problems for industry and people who are involved in the adjustment process but the overall effect of it is prosperity and progress.

Mr. BURKE. In the course of testimony we have had here, we have been exporting all of that technology overseas, American investors are investing their money overseas and so they are transporting the jobs over there so technology today is worldwide and they tend to seek the market where the lowest wages are and then the goods seek the market where the lowest prices are which means we are going to transport our jobs, our industry and everything else and then they are going to try to sell it back to us.

Some place along the line they are all going to be tripped up because eventually there will be no buyers left over here to buy the importers' goods.

With this quota bill, actually, it is not protectionism. It protects those foreign countries because it does not take one job away from them. It does not close one plant overseas. They are allowed the market they have right now and they are allowed to grow with the domestic market and that seems to be a reasonable approach. You cannot put that in the Smoot-Hawley class.

I am afraid if something is not done, Congress one of these days in a high gear of national emotionalism, will put through a bill which will make the Smoot-Hawley bill look rather mild in comparison to what Congress can do when they react to some of these things as you have seen them react lately.

Mr. FINDLEY. Yet, has not the testimony from the mink industry indicated what lies ahead if you propose relief for one or two isolated industries and do not take care of the rest of them?

Mr. BURKE. The Tariff Commission just turned down the application of, I believe, five firms up in Massachusetts on the shoe industry. They said there was no injury there but those people are without jobs. I do not know why they feel they were not injured. I think it was a 3-to-3 decision.

I think we have to take a real look at this trade policy and we just cannot open the flood gates and let them flood their goods in there and let them continue holding their barriers against our goods.

Under the GATT agreement, we reduced the tariff on 6,000 items but they did very little. Right now some of the people who are part of the GATT agreement are violating some of the tariff regulations.

Mr. FINDLEY. Yet I think we can take comfort in the experience these six countries have had in the transitional years when they moved from six protected markets to one relatively free trade area.

There originally was a great disparity in wage rates between those markets and these were faced and adjustments occurred and now I think all parties are glad they went through the adjustment period.

It has not hurt the common market. It has really made the common market.

They have not completed their transition on agriculture but even in that difficult field where the prices had been very widespread from France to West Germany and Italy and so on, even that problem has been mastered.

I think we can go forward to less barriers of trade in the great international community of advanced nations and do it to the advantage of all.

Mr. BURKE. I do not want to argue with you but what we are faced with here is a competition from the Orient and places like Korea where they pay a woman 7 cents an hour and they pay a child 6 cents an hour and they work them 10 hours a day and they pay a man 10 cents an hour. Of course, this is ridiculous when American workers are averaging at the lowest, around \$2.60 an hour to compete with this type of wages.

Unless we can do something to bring their wages and working conditions up, I do not see what the future of the United States is going to be as far as production is concerned.

I can see some rather bleak days ahead and I would rather hope we do not return to the days of Herbert Hoover when we had so many millions of Americans walking the streets unemployed, selling apples because there might not even be a market for the apples next time.

Thank you, Mr. Chairman. That is all.

Mr. GIBBONS. Mr. Landrum.

Mr. LANDRUM. Mr. Findley, I have not had the opportunity to hear all of your discussion. I read your statement. I think I can appreciate your fundamental concern with the export of agriculture products to any of the countries, having come from an area where once all of our economy was based on agriculture and our entire attitude toward this trade with foreign nations was on a free-trade basis such as you have suggested in your statement here.

Nevertheless, we have moved into a time when our economy is somewhat more industrial than it once was. We find ourselves faced with imports manufactured at a considerably lower wage than we pay in this country or that our people can afford to work for in this country, and these imports are eating into our jobs.

In 1962, for example, Mr. Findley, the equivalent square yard import from Japan was a little less than a billion yards. Today at the rate these imports are coming in, we will have absorbed by the end of this year about 4.1 billion equivalent square yards.

Now, that is textiles only. Last week North Carolina as I recall, reported 1,300 people out of work, not 1,300 people coming into the labor market and seeking work but 1,300 people in the textile field having lost their jobs because of the short workweek and shorter hours.

South Carolina, I believe, reported 1,000. That is 2,300 jobs. For my own State of Georgia, I do not have the figures, and I am trying to get them. I hope they are not quite as shocking as those.

I would ask you, Mr. Findley, just where would you have us turn to get jobs for these 2,300 people who are losing their jobs?

If we talk free trade to them and balance of trade, it does not make good sense. How are they going to pay their grocery bill?

Mr. FINDLEY. That is an age-old question that we have wrestled with since the beginning of time. As long as we have advances in technology, I am sure it is going to confront us. It is the price of progress, I would say, which is a harsh price upon the person who is affected.

I think the answer is not to try to retard progress in trade and technology, but rather, to help the individual who is severely affected to adjust to changing conditions so he will have a sound base, a sound future in these changing times.

That is no immediate answer to 2,300 people who have been laid off in the textile industries in the South.

Mr. LANDRUM. 2,300.

Mr. FINDLEY. I might also say the cotton textile industry has not been neglected by the American taxpayers over the year. They are the principal reason why we have a cotton program which costs the taxpayers the equivalent of the value of the cotton crop.

Mr. LANDRUM. Mr. Findley, we are not talking about cotton or cotton production or cotton textiles so much here. We are talking about the importation of textile products.

Mr. FINDLEY. Which may or may not be cotton.

Mr. LANDRUM. They may well be blends.

One other general statement and then I will pose a question. We will continue to deal with Japan. This yardage that is coming in in the textile field is manufactured at a top wage of 57 cents. Our average

wage in the textile field today is \$2.43. You can get all of the technology that you can produce at Cal-Tech, at MIT, and Georgia Tech and anything you might have up there in Illinois, or at Northwestern, and you are not going to find much technology that can compensate for an hourly wage difference of about \$1.86. It just does not exist.

So, I want to ask you this. We do not propose by this legislation to exclude Japan's or any other country's exports to our market. All that we seek to do is to have them accept an orderly annual increase in imports to us based on our growth.

For example, we have asked to roll back several years but let us assume we could just get back to 1967 or 1968 and allow an annual increase of 5 to 7 percent.

Now, here comes my question: Would it not be more nearly complete free trade under an arrangement that would allow a stabilized amount of a given product to be imported than it would be to try to erect a tariff barrier in the first place to keep it out? I do not want to do that and I am sure you do not want to do that because your statement indicates it. If we legislate quotas, are we not getting a little closer to free trade in these modern times than we have ever been before?

I believe it may be time for us to reassess what we mean by "free trade." I wondered if the gentleman had any comment in that regard?

Mr. FINDLEY. I think this is the first time I have heard it suggested that quotas would be a step toward free trade. I would like to ponder that a bit, but my first reaction is that quite the contrary would be the case because they are intended to be a limitation on trade volume and would be so regarded by the other parties.

I have heard also that the effect of the quota bill now before this committee would be to make a rather substantial percentage increase in the cost of apparel for the American consumer.

While there have been hardships visited upon these many people from the affected industries here, I think the overall interest of the American consumer has to be given consideration. What we need is a balance. If we do have an industry that requires an interim protection, I feel the uniform tariff approach is to be preferred over the quota approach.

The quota approach by its very nature is discriminatory whereas a tariff gives all nations access to the uniform barrier of our protected market.

Mr. LANDRUM. What is the gentleman's view of the purpose of tariff? Why do we use a tariff? Is it to let goods come in or keep them out?

Mr. FINDLEY. I believe it was originated as nearly the exclusive means of raising revenue for the Federal Government. It since has been changed radically. I am sure it is used partly for revenue purposes but more so for protection.

In my proposal that we try to advance toward free trade, I would not want to leave the impression that I would like to see this all done in one step, in one short period of time.

Mr. LANDRUM. Is the gentleman aware of what happened in the Common Market in the export of poultry?

Mr. FINDLEY. The criticism I have of the Common Market is the heavy protective barrier it has assumed.

Perhaps the organizers did not foresee this. It is something we have to constantly battle against. I do not rejoice in that. I regret that very much.

Mr. LANDRUM. Really, the meaning we attach to a tariff here is not a revenue. It is to regulate the flow of commerce between nations. The specific purpose in the case of the common market countries is to keep us out with our poultry.

Mr. FINDLEY. That is correct.

Mr. LANDRUM. We might find some merit in a provision that would allow a stated amount stabilized over the years on a product coming in that was competing with our domestic economy to the point of costing us jobs.

The national interest, the national security as I view it is made up of several things—of sound civilian economy, a strong military complex and, of course, a strong social structure with it.

I think that, as far as the contribution to national security is concerned, I think the three are inseparable. So, we challenge our national security when do anything that increases unemployment. We put it in jeopardy when we do anything that will continue to cause a rise in unemployment. Obviously, any person must recognize we cannot continue through technological understanding alone to compete with equally good technology in the textile field at a wage differential of \$1.86 an hour.

Mr. FINDLEY. I was intrigued with one of the proposals of Tom Curtis, one of your colleagues a few years past. He advocated a tariff which would be variable according to wage rates of firms with whom business would be done. I proposed the same type of arrangement on our sugar act as one means of reforming that.

We certainly have to recognize the difference in wage levels.

Mr. LANDRUM. Thank you.

Mr. GIBBONS. Mr. Pettis?

Mr. PETTIS. No questions.

Mr. GIBBONS. Thank you for your very fine contribution here today.

Our colleague from the State of Idaho, the Honorable Orval Hansen, will present testimony today. If you will come forward, we will be glad to hear your statement.

STATEMENT OF HON. ORVAL HANSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IDAHO

Mr. HANSEN. Mr. Chairman and distinguished members of the committee. I am grateful for this opportunity to present this statement in support of the many bills, including my own, which would amend the tariff schedules with respect to the rate of duty on whole skins of mink which are imported into the United States.

For almost four decades the United States has been, I believe correctly, the enthusiastic champion of a free trade policy, which most economists agree has been a prime stimulant to the booming economies of the free world. The economic growth rates of those nations who espouse free trade policies is testimony to the success of this policy. Certainly the U.S. overall trade surplus in the last two decades militates against an abandonment of free trade principles, and I personally want to commend President Nixon and Secretary of Commerce

Stans in their efforts to secure voluntary agreements with America's trading partners.

However, within the broad framework of this successful economic policy, the fact remains that in respect to certain categories of goods the United States has become the dumping grounds for commodities on which no quota is imposed, and, as the distinguished members of the committee are well aware, the United States is incurring serious trade deficits in certain categories such as steel, textiles, and footwear articles. Although many Members of Congress are reluctant to resort to a legislative solution, we cannot remain aloof from the fact that many of our industries are being forced out of business awaiting solution by voluntary means on the executive level.

One of the lesser known victims of unrestricted import policies is that of the mink rancher. Because of the absence of any quota on the importation of mink pelts and because of a recent flood of mink imports from the Scandinavian countries, the auction prices of domestic mink production have fallen far below the cost of production.

In his statement before your committee last month Mr. David W. Henderson, executive secretary of the National Board of Fur Farm Organizations, outlined the history of mink imports, and he documented the disaster which has befallen the domestic mink farmers. In Franklin County, Idaho, for example, where mink ranching has for years been the second largest contributor to the economy, the normal production cost per mink pelt is \$10. Because of the declining auction prices, the average price has declined from a 1961 level of \$22 per pelt to a 1970 price of \$9. Many of our Idaho ranchers, therefore, have had to kill and bury mink because they are not receiving production costs. Gentlemen, 70 percent of the mink ranchers in Franklin County, Idaho are the family type farms, and they are, to put it bluntly, going broke. This is not an idle statement as the number of mink ranchers in this country has been reduced from 7,200 in 1962 to less than 2,000 in 1970.

But it is not my intention to unnecessarily repeat those facts which have previously been submitted to this distinguished committee. As these facts are on record, I merely want to urge that this committee and Congress adopt a reasonable basis for the importation of mink pelts. There recently have been proposed two different standards for import limitations. One measure, such as my bill H.R. 17745, would restrict imports to 30 percent of the previous year's domestic consumption; the other measure would restrict it to 40 percent. Because of the seriousness of the current plight of the mink ranchers, I am convinced that the 30-percent figure is the more reasonable basis, so that the ranchers can have more flexibility during which time they could rebuild their working capital. Also, this additional 10-percent limitation would presumably encourage those ranchers who have gone out of production, but who have not yet disposed of their fixed facilities, to start over and hopefully salvage part of their investment. However, if after your careful deliberation the committee decides that 40-percent is the more reasonable figure then that, too, would undoubtedly give the mink rancher a chance of economic survival.

I am positive, though, that we do need some ceiling on mink imports which, while allowing for imports on a reasonable basis, will permit the

imports to grow with our domestic economy, but deny them license to destroy our own production.

Thank you for granting me the privilege of submitting my views on this most important subject.

Mr. GIBBONS. Are there any questions? I hear none. Thank you for appearing today.

Our next witness will be Mr. James R. Sharp and Mr. Hessel. Would you please come forward and identify yourselves for the record, please.

STATEMENTS OF JAMES R. SHARP, WASHINGTON COUNCIL, AMERICAN FUR MERCHANTS' ASSOCIATION, INC., AND B. H. HESSEL, CHAIRMAN, FOREIGN TRADE COMMITTEE; ACCOMPANIED BY EUGENE DREISIN, COCHAIRMAN

Mr. SHARP. I am James R. Sharp, an attorney with offices at 1108 16th Street NW., Washington, D.C. I appear here today as Washington counsel for the American Fur Merchants' Association, Inc. This is the largest association of fur dealers in the United States, having some 200 active members whose businesses are largely in the Metropolitan New York area.

SUMMARY

The American Fur Merchants' Association, Inc., representing the majority of the dealers in mink furskins, states that it is joined by the entire Fur Industry in the United States, excluding only the National Board of Fur Farm Organizations which represents the U.S. mink ranchers, in vigorously opposing all legislation which would impose either quotas or duties on raw or dressed mink furskins. The representatives of the fur industry place emphasis on the following facts in support of their opposition to quotas and duties on mink skins:

1. Imports have decreased more than 50% in the last three to four years—a situation which negates any requirement for legislative relief.

2. On two recent occasions, the last only two years ago, the Tariff Commission, after an exhaustive study, found no basis for the U.S. mink ranchers' claim that imports were the cause of the depressed price structure which was causing problems in the U.S. mink industry.

3. The U.S. ranchers have applied to the Tariff Commission for import quotas but never for adjustment assistance, which may well solve their problems.

4. A new Trade Act will undoubtedly be adopted by the Congress this year which will relax the rules under which adjustment assistance and escape clause relief may be granted.

5. The U.S. mink ranchers should be required to apply for relief under the about to be adopted legislation before the Ways and Means Committee takes the drastic step of adopting legislative relief.

6. Legislative quotas are impossible to establish and administer in an industry such as this involving volatile changes in economics, fashion and style.

7. The Congressionally adopted embargo of 1951 on seven Russian fur skins has already placed an unreasonable and unjustified limitation on the raw material available from foreign sources to the U.S. fur manufacturers and labor force. A further limitation in the form of embargo rate duties or quotas on mink skins would result in the demise of the United States Fur Industry as the major fur center of the world.

Since ranch raised mink skins make up the vast bulk of the products dealt in by the members of this association, its members would be vitally affected by any legislation which would limit the supply of such furs to the U.S. fur industry from either domestic or foreign sources. I am authorized to say that this association is joined by the entire fur industry in opposing the mink quota and duty bills now pending before this committee. This opposition includes the dealers'

and brokers' associations, the two manufacturers associations, the fur processors, and the union representing the entire labor force in the industry.

There are some 47 bills pending before this committee which could seriously limit the supply of mink skins now available to U.S. fur dealers and brokers and, though through them, to the U.S. fur garment manufacturers and their labor force.

We should like to present our testimony in opposition to such legislation in three phases. I will first briefly outline the proposals now before you which deal directly and indirectly with the tariff treatment of mink skins. Mr. Hans Hessel, a man with vast experience in the fur industry whose advice and counsel in the marketing and selling of this product is widely sought, will then describe the production and selling phases, and the havoc which would be wrought in the mink markets of the world should restrictive legislation be adopted in the United States. I will finally pick up the story and summarize the facts which demonstrate the lack of merit in the proposed legislative quotas on the imports and the lack of need for duties on the product.

Raw mink skins, like almost all furs, have historically been free of duty. They were bound duty free under an international agreement effective January 1, 1936. To protect the U.S. labor force engaged in processing raw skins there is a modest duty, now at the level of 3.5 percent ad valorem, applicable to dressed mink skins not dyed—124.25 TSUS—and 5.5 percent on dressed skins dyed—124.65 TSUS. The bulk of imports, approximately 98 percent, are raw skins.

Most of the bills pending before this committee would not change the duty status of this commodity in relation to entries not in excess of 40 percent of the estimated annual U.S. consumption of such skins.

The majority of the bills, however, would, if adopted, place a prohibitive duty of 50 percent ad valorem—for all practical purposes an embargo—on imports which exceed 40 percent of estimated consumption. Three of the bills now pending would place the embargo level duty on imports to the extent they exceeded 30 percent of estimated domestic consumption.

One bill, H.R. 17108, introduced by Representative Ancher Nelsen on June 4, 1970, is a copy of the Mills textile and footwear bill H.R. 16920 with an added section which would place a quota on mink skins equal to the average imports in a 1959-60 base period. Another bill, H.R. 17423, would simply enact a prohibitive duty rate; i.e., \$3 per skin minimum with a permissible \$5 per skin escape clause maximum on all raw skins and a 25 percent ad valorem minimum duty rate—a 50-percent escape clause maximum rate—on all dressed skin imports. This rate, too, is an embargo rate for all practical purposes. In addition to these bills which are specifically designed to control the quantities of mink skins available to the U.S. fur trade, there are the so-called orderly marketing bills, the formula which would undoubtedly limit the importation of mink skins.

The American Fur Merchants' Association and the entire fur industry with the exception of the U.S. ranchers vigorously oppose all of these bills, those which would impose direct controls and those which would indirectly do so by the formula route. I would now like to turn the testimony over to Mr. Hessel for the second phase.

STATEMENT OF B. H. HESSEL

Mr. HESSEL. I am B. H. Hessel. I have been in the fur business since 1921 and on my own account since 1928. I am a broker doing business under the name of B. H. Hessel & Co., Inc., at 145 West 30th Street, New York, N.Y. In addition, I am the president of the Scandinavian Fur Agency, Inc., a New York corporation, a vice president of the American Fur Merchants Association, Inc., of New York, and chairman of the Foreign Trade Committee of that organization.

As Mr. Sharp has suggested, I would like to briefly acquaint you with the ranch mink producing and marketing industries in the United States and abroad so you can better understand the facts from which we in the fur trade conclude that the adoption of any of the proposed mink bills pending before you would cause the rapid demise of the fur industry in the United States and create a completely chaotic condition in all mink auctions in the world including those in the United States.

Let me give you a bit of background. The vast majority, at least 95 percent, of all mink skins are ranch raised.

The annual world crop of ranch-raised mink is now approximately 23 million skins. In 1950 it was under 5 million. Ranch operations are conducted largely in the northern half of the States.

The bulk of the remainder of the world crop originates in Canada, the four Scandinavian countries, and, to a more limited extent, in England, Ireland, and Holland.

In the meantime, the U.S. industry has not produced a crop adequate to supply domestic demand, particularly for the commercial grades used largely in the trimming trade where no fur is used unless it is inexpensive fur and where competition among various types of furs is much greater than in the industry producing complete fur garments. According to the Tariff Commission's 1968 report—

Most of the fur skins exported to the United States were of the commercial and low grades; they consisted principally of female fur skins, which were smaller and hence lower in unit value than the male fur skins of comparable quality. * * * most domestic fur skins also fall within the commercial grade. * * * The bulk of the imported fur skins are used to trim cloth coats or are made up into medium- to low-priced fur garments (p. 52).

The total number of mink ranchers is now believed to be around 2,500. The Tariff Commission commented in 1968, page 24:

The number of ranchers has declined in recent years but the aggregate operations of those remaining have expanded, consistent with the trend prevailing in other farm enterprises.

At page 4 of the supplement, the Tariff Commission issued to its report explaining its method for arriving at much of its statistical information, the Commission found that mink ranchers in business during the period 1963 through the first 9 months of 1967 were approximately as follows:

Group No.	Number of pelts per rancher	Total number of ranchers	Percent of total ranchers	Percent of U.S. output
1.	20,000 or more	13	-2	17
2.	10,000 to 19,999	46	6	20
3.	5,000 to 9,999	186	42	51
4.	1,000 to 4,999	1,391	50	12
5.	1 to 999	1,643		

The Commission stated in its report at page 23 :

A mink ranch is not generally considered to be a so-called commercial operation unless it has at least 250 female breeders and an annual output of at least 1,000 fur skins.

Breeding takes place fairly uniformly throughout the world in late March and early April. The kits are born in May, the crop is harvested in November and the skins marketed from December each year generally through May with some poorer grade skins being offered in the remaining months through October.

The bulk of the annual world crop of ranch-raised mink skins is sold at public auction held at various points in the world. The Tariff Commission found in 1968 that 93 percent of U.S. production was sold through the auction houses. The major auctions in the United States are conducted by three companies, the Hudson Bay Company, the New York Auction Co. in New York, and Minneapolis and Seattle Fur Auctions Exchange in Seattle. All of these auction companies are private businesses independent of the ranchers except for the fact they provide financing for ranchers and thus compete in order to capture the resulting crops for sale at auction time.

The system is quite different in the Scandinavian countries whose combined production now leads the world. In each of the Scandinavian countries the mink ranchers are members of cooperative associations which are owned by the ranchers. In turn, the ranchers' cooperatives own the auction houses. The four auction houses work in close cooperation with each other and operate at cost, leaving the entire profit in the mink ranching and marketing operations in Scandinavia for the benefit of the farmers.

As time is limited I will state concisely why not just the dealers and brokers, but the entire industry is opposed to quotas and duties on raw minks.

(a) Raw minks are an international commodity sold almost 100 percent at public auctions in the United States, Canada, and Europe. These auctions are attended by large numbers of buyers from all countries in the world, including the United States. Prices are established by competitive bidding. Equal quantities and sizes of an identical color sold at the same relative time of year but in different countries will bring equal prices—less consideration for shipping, insurance, and so forth, expense, regardless of whether the auction is held in Canada, England, the United States, or Scandinavia.

(b) Prices of mink skins are subject to frequent and volatile fluctuations due to changes in economic conditions, styles, and fashion.

(c) Mink skins produced abroad are not shipped to the United States by foreign producers, to be sold after arrival in the United States. Instead they are almost exclusively purchased by U.S. firms at public auctions abroad and then imported for use in the U.S. fur trade. In other words, the Scandinavians and other producing countries do not bring their skins over here to the United States and sell them here. They raise them in Scandinavia and auction them off in Scandinavia. U.S. imports consist solely of skins bought in foreign auctions by U.S. dealers, brokers, and manufacturers who choose to go abroad to compete with foreign buyers in order to fill the needs of the U.S. fur trade.

(d) As the Tariff Commission clearly found in 1968, imports do not replace domestic production, but instead supplement the require-

ments of the U.S. fur industry. Importers generally concentrate on types which are either unobtainable or obtainable only in limited quantities from U.S. producers.

(e) Without imports, the majority of the U.S. public could not be supplied with its requirements in mink either as to quantities or qualities.

That the entire fur industry in the United States including the farmers, has in some years operated at a loss, cannot be disputed. The U.S. mink producer has indeed had a few very difficult years, particularly lately. The ranchers and many of the dealers, brokers, and manufacturers are suffering the same crunch in this current 1969-1970 selling season as they suffered just 3 years ago. The Tariff Commission reports on two occasions, the last in 1968, have established that it was not imports or increased imports which results in unsatisfactory market prices for ranch-raised minks.

Despite this, the domestic producers continue to delude themselves by the belief that a quota and/or a duty will solve their problems.

Now, let us analyze how the world marketing of ranch minks would operate on the adoption of an import quota. Here, again, we must first recognize certain facts:

1. The main marketing period for minks is and always has been from December to May the following year.

2. Most producers operate on limited capital. They must guess what colors of minks to raise for future marketing and must receive cash for the crop to pay accumulated costs of operation. The auction houses do a large part of the financing of the ranchers and they want to liquidate their advances to the producers as rapidly as possible. This is so because by March and April there are demands on them for advances on the new crop.

3. Dealers and manufacturers normally reduce their inventories toward the end of the marketing season in order to clear the decks for the new crop coming up in December and January and for the following additional reasons:

(a) Fiscal years in this trade normally end in November to January at which time inventories are kept low and cash is at a maximum.

(b) At the same time there is a desire to replenish inventories with fresh minks, for experience has taught us that carried-over skins automatically are worth less than fresh skins.

For these among other reasons, a quota could not be stretched over 12 months at fixed percentages for months or quarters. Even in the short marketing period of December to May, the best rounded-out collections are offered only in January through March.

If there is a quota, what will happen?

(a) Producers all over the world will offer large quantities for sale as early as possible in order to dispose of their crops at a time before the quota is filled when U.S. buyers are bidding in the foreign auctions.

(b) U.S. Buyers will make commitments abroad as early as possible so they can get their skins in under the quota.

(c) It is also possible that European buyers would limit their purchases until U.S. buyers have filled the quota after which prices in European auctions would be expected to recede.

From these facts one familiar with operations in the auction markets could readily conclude that, if a quota is adopted, abnormal price levels will prevail in most auctions. They would be abnormal early in the year

because of the rush to get goods in under the quota early in the marketing season, while at the same time farmers with tight credit were trying to get cash out of their crops to pay their bills. They would be abnormal in the later auctions (a) because of the absence of competition from U.S. buyers in the foreign auctions and (b) because of the monopoly U.S. skins would enjoy in the U.S. fur market after the quota was filled.

Under all but two of the mink bills the Secretary of Agriculture is required to estimate before the end of each year the level which domestic consumption of mink will reach in the following year. Gentlemen, that is an impossible task. For years the fur trade has been trying to make such estimates in advance and it has failed miserably. Rapid changes in fashions and economic conditions here and abroad have made estimates of probable consumption a year ahead almost impossible. The Tariff Commission said in its 1968 study, page 19, that—

* * * probably the primary determinant of the demand for specific furs is style or fashion.

What Secretary of Agriculture could have guessed last December that midi and maxi fur garments would be the rage this year, and that the number of pelts consumed would, therefore substantially increase because of the larger number of skins needed in the manufacture of more sizable garments? And in 1965 what Secretary of Agriculture could have predicted the advent and popularity of the mini fur garments which took the market by storm in 1966? Even the fashion experts were slow to guess that one.

If the Secretary's guess for a particular year was too low, an abnormally high price structure would develop in U.S. auctions. An abnormally low one would prevail in the foreign auctions after the quota was filled.

As the Tariff Commission pointed out in its 1968 study, page 19:

The purchase of mink garments is usually postponable and it is known that the prices of furs change frequently; hence price and income expectations play an important role in the demand for mink furskins.

As proof of the difficulty of making estimates of even the production of American mink, much less of consumption, I would like to call your attention to the chart attached to our written statement. This chart was prepared by the U.S. Tariff Commission and included in the addendum to its 1968 report. The National Board of Fur Farm Organizations estimated in the 1967 hearings that their production in 1967 was 9 million skins. The Tariff Commission, after an exhaustive investigation, came to the conclusion that that figure was completely misleading and found the actual production was only around 6 million skins—an error of 33⅓ percent. Having found this gross error, the Commission checked back and found that the official annual estimates of production made by the National Board dating back to 1954 were overestimated every single year by 20 percent to 34 percent.

Now, if the ranchers themselves are unable to estimate their own production of mink, how is it possible for a Secretary of Agriculture to estimate the probable consumption for any following year?

In any event, erroneous estimates, when added to the disruptive effect of a quota on the normal operation of the law of supply and demand, would lead to volatile abnormalities in the price structures

of every auction in the world in which minks are sold. A domestic market level higher than that prevailing in the world markets elsewhere would undoubtedly develop. If so, the results would be:

- A. A decline of export of U.S. minks.
- B. A decline of export of mink garments.
- C. A decline in the consumption of minks domestically.
- D. An increase of the purchase of mink garments abroad by U.S. citizens.
- E. An increase in the imports of mink garments for sale at retail in the United States.

However you look at it, a quota and/or duty on raw minks will not bring stability to the mink industry. Just the opposite. It will create instability which will immediately harm the fur industry as a whole and eventually equally harm the domestic producers. The solutions to the farmers' problems lie elsewhere. They certainly have nothing to do with imports.

We, in the fur industry believe that a solution to the farmers' problems—and they do currently have problems—should be found to preserve the domestic source of supply of substantial quantities of high quality mink pelts. But we think the solution does not lie in the establishment of artificial limitations on where and how many raw pelts the U.S. fur industry can buy in the world markets abroad. Instead, we believe it may lie in temporary adjustment assistance until the economic system again dictates profitable levels of pelt prices. And it may also lie in the solution proposed on June 3 by Senator Moss under his bill S. 3921. He proposed emergency loans for mink farmers under a proposed amendment to title C of the Consolidated Farmers Home Administration Act of 1961 which presently authorizes emergency loans to farmer and ranchers who have suffered severe losses caused by natural disasters.

If we are to control inflation we must preserve competition in the marketplace. It is therefore important not only to the fur trade but to the consumers and to national policy that we preserve both imports and domestic production of mink pelts. We urge you, therefore, to aid the farmers in finding other means than duties and quotas to solve their problems.

At this point, I would like to turn the testimony back to Mr. Sharp.

Mr. SHARP. May I say, Mr. Chairman, that it is difficult to justify wasting the time of this committee on matters properly within the jurisdiction of the U.S. Tariff Commission. Twice now, the last time in April 1968 the Commission found that imports were not the cause of the occasional unprofitability of mink ranching in the United States—and the record shows it is only occasional, not constant unprofitability, that has been experienced. The farmers could not prove to the Commission and the Commission could not find as a result of its extensive investigation, that imports were the cause of the ranchers' problems. So, political pressures are being substituted here in Congress for facts.

As Mr. Hessel says, it may well be the mink ranchers could qualify for adjustment assistance, and if so, they should have it. It would perhaps be difficult for them to qualify under the present law for imports were not shown to have contributed substantially to the domestic ranchers' plight in either 1957-58 or 1966-67, the periods immediately preceding the Commission's two investigations. However, the

President has proposed, and wide support has been expressed in these hearings for a revision of the present tests for eligibility for escape clause and adjustment assistance relief to industries affected by imports.

But the ranchers have never applied for adjustment assistance—even under the present law. For over 10 years now they have demanded quotas or nothing, that is, a semimonopoly or nothing. If, in these hearings or in the committee's subsequent deliberations, you should conclude that the Tariff Commission made a mistake, I would expect the committee to take action. But that action should be to request the Tariff Commission to conduct a new investigation, giving more adequate and up-to-date consideration to certain factors. That action could also include the reporting out of a new trade bill relaxing the tests for escape clause relief and adjustment assistance. If such legislation is enacted it will make it possible for the ranchers to again place their case before a factfinding and relief recommending body under relaxed tests for relief which could give detailed rather than momentary consideration to the merits of the ranchers' pleas in light of the newly relaxed tests involved and the facts as they have and will develop. But that is the most you can and should do. You should not make this committee the court of appeals of Tariff Commission decisions.

These hearings on tariffs and trade involve a multitude of problems. If you legislate quotas after a 1-hour hearing before this committee, it would be a disservice to the public and a slap in the face to the Tariff Commission.

Imports of mink skins do not fall in the category of "special situations" relating to textiles and shoes. A few statistics demonstrate that the depressed condition of the U.S. mink market is not brought about by increased imports or imports of whatever volume they may be. There is attached to our written brief a schedule of statistics provided by the U.S. Bureau of Census. It shows that imports have been in a steady decline for 3 straight years—not a small decline but a really drastic and dramatic one. It shows that in the first 5 months of the current marketing season imports are 54.71 percent below the level for that period 4 years ago, 54.84 percent below the level for 3 years ago, 46.35 percent below the level 2 years ago and 38.34 percent below the level 1 year ago. Do those statistics sound like a "special situation" requiring urgent action to stop a "flood" of imports? The schedule shows that in the first 5 months of the marketing season 1965-66 and in the same period in 1966-67 imports stood at a level of around 3.7 million. Last year they stood at 2.7 million and this year at 1.7 million. Does that sound like a "special situation" requiring legislative quota measures? The schedule shows that in calendar year 1966 imports of raw and dressed mink were 5.69 million and in 1967 5.42 million, these being the last 2 years considered by the Tariff Commission in its April, 1968 report when it found imports were not the cause of the domestic ranchers' problems. In calendar 1968 imports of raw and dressed mink dropped to 4.78 million and last year, in 1969, to 3.68 million—2 million skins less than in 1966. Does that sound like imports are flooding the U.S. market?

Now as to market prices. This year the ranchers are experiencing the lowest price levels since the year 1966-67 which led to the last complaint of the ranchers to the Tariff Commission. But with imports in

the current marketing season 1969-70 numbering less than one-half of the level of 1966-67 there can be no validity to the effort to blame this year's unprofitable prices on the level of imports.

The fact is that, while the ranchers are having a tough time, it is the shortage of disposable income which now, as in the past, has largely caused troubles in this luxury industry.

Since the Commission completed its last investigation in April, 1968 the ranchers here and abroad experienced a fair season price-wise for the remainder of 1968 and another fair year in the marketing season December 1968-69. Women's Wear Daily, reported on August 26, 1969, that the national board reported an average per pelt figure of \$16.32 realized at auction for the year, an increase of 9 percent over the 1967-68 crop. As to dark minks, the national board, in August, 1969, reported realization of an average of \$20.62 per pelt—an advance of 20.5 percent over the previous year.

However, the situation changed rapidly toward the end of 1969. This time the price break came in the U.S. market. The stock market, tight money and the dwindling supply of disposable income had the usual effect on all furs just as had occurred in 1966-67. The depression in this industry developed rapidly as the 1969 crop came on the market.

Mr. GIBBONS. Gentlemen, we will have to recess now until 2 o'clock. (Whereupon, at 12:40 p.m. the committee recessed until 2 p.m.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Al Ullman presiding.)

Mr. ULLMAN. The committee will be in order.

STATEMENTS OF JAMES R. SHARP, WASHINGTON COUNSEL, AMERICAN FUR MERCHANTS ASSOCIATION; B. H. HESSEL, MEMBER, FOREIGN TRADE COMMITTEE; ACCOMPANIED BY EUGENE DREISIN, COCHAIRMAN—Resumed

Mr. ULLMAN. We will be happy to have you complete your testimony at this time.

Mr. SHARP. Thank you, Mr. Chairman.

I would like to introduce the gentleman to my right, Mr. Eugene Dreisin, former President of the Fur Merchants Association of New York City.

At the end of the morning session, I had briefly reviewed the fact that the prices of mink pelts in the two seasons prior to the current season had been at a relatively satisfactory level.

I started to describe the break in the market which occurred toward the end of 1969. As I stated, the situation changed rapidly toward the end of 1969.

This time, the price break came in the U.S. market, in the auctions here. The stock market, tight money and the dwindling supply of disposable income had the usual effect on all furs just the same as had occurred in 1966-67.

The depression in the industry developed rapidly as the 1969 crop came on the market. But, as usual, it was not just mink that was in trouble. As before, when disposable income dropped, all luxury goods

quickly reflected the economic slowdown and sales and prices both drastically lowered. Mink pelt values of imports are down 20.15 percent this year from last year and 3.6 percent from 2 years ago. Equal declines have been experienced this year by the domestic ranchers, and other skin prices are equally affected. Alaska Seal, an item which has no foreign competition in this country, was down 23½ percent in April 1970, compared to the prices a year ago—April 1969 average \$104.65 as compared with April 1970, \$79.67. And so it goes with all other furs. The experience in the market has been comparable with that of mink.

And—as in 1966–67—the depression is reflected in all mink markets in the world, not just in the United States where the economy is being slowed. Germany remains the No. 2 consumer of minks and remains prosperous. Yet, the German buyers' prices this year are reduced to the level in the United States by the depressed condition existing on the U.S. market.

And may I say, it is not just the ranchers who have been affected by the depressed situation I have described. It is the entire fur industry, particularly those who had on hand, this year, pelts bought at last year's much higher prices.

May I point out another incongruity in the plea of the mink ranchers. While they demand legislative restrictions on imports, they suffer no restrictions on the sale of the U.S. skins or fur garments anywhere in the world. Raw skins are generally duty free in all countries. Last year, some U.S. ranchers, for the first time, offered and successfully sold some of their pelts in a European auction. As a result, U.S. exports, both raw and dressed, increased substantially over the prior year. Total raw and dressed pelts exported December 1968 through April 1969 were 742,800 and from December 1969 through April 1970, 1,061,200, an increase of 43 percent. And, it should be noted, in 1969, the U.S. ranchers' exports of over 1.5 million pelts amounted to approximately one-third of total 1969 estimated production.

The export of fur garments by the U.S. fur trade also increased from 2.7 million in 1967 to 3.5 million in 1969, an increase of close to 30 percent.

Surely the domestic ranchers and the members of this committee must know that if the U.S. Congress starts a trade war on mink skins, U.S. exports of skins and garments will suffer, for lower prices will prevail in Europe for both skins and garments and European buyers will not be attracted by the higher prices on the U.S. market, should they develop, as the domestic ranchers hope and intend they would. Furthermore, the European countries could well retaliate against U.S. restrictions by adopting restrictions intended to reduce U.S. pelt exports to European countries.

To summarize, the reasons why you should take no action on the mink bills pending before you are:

1. Imports are less than one-half of what they were 3 to 4 years ago and have decreased every one of the last 3 years. This is not a situation requiring legislative relief.

2. The Tariff Commission as recently as 2 years ago found imports were not causing the ranchers' problems. If you believe the situation has changed long range since 1968, you should send the matter back to the Tariff Commission for more up-to-date consideration.

3. The Tariff Commission, not this committee, is the forum in which the ranchers' problems should be resolved under rules uniformly applicable to all industries.

4. The ranchers have never applied to the Tariff Commission for adjustment assistance, one of the two forms of available help to industries claiming to be injured by imports. New and relaxed rules for providing such assistance are soon to be adopted by the Congress and the ranchers should be required to test the application of those rules to their situation before again resorting to the usual route of legislative action.

5. The sole reason for action by this committee now would be the political pressures which have been and are being applied by the ranchers. This committee should legislate only in areas where there is a demonstrated need for relief from increased imports—relief which for unusual reasons cannot be obtained in administrative forums.

It should not legislate by reason of the application of uncommonly excessive political pressures, particularly in a situation like the one here in which imports have dramatically reduced for 3½ years.

6. Quotas are impossible to administer as to a raw material sold at public auction, one having a marketing season of only 6 months per year. They are impossible to administer without serious disruption of normal marketing and pricing in the case of a commodity the production of which irrevocably is started some 8 to 9 months before the crop-selling year starts—a production which in the nature of things cannot be later curtailed or diminished (for nature must take its course after production commences in March of each year), a production which cannot be accurately estimated, and a production the utilization of which cannot be estimated, within reasonable areas of error because of sudden price fluctuations resulting from economic and fashion changes.

Neither hell, nor high water, nor the Secretary of Agriculture can prevent mink crops from selling at unprofitable prices if, after a quota is set in advance, economic recessions or slowdowns, or high interest rates and tight money eliminate or make unavailable to the mink market a substantial segment of the disposable income which the Secretary thought would be available.

7. The supply of raw materials available to the U.S. fur industry has already been reduced by the Congress by the imposition some years ago of an embargo on seven Russian furs, an embargo which still remains on the books, unfortunately. Further limitations in the form of quotas or duties on mink skins will surely aid in the demise of the United States as the leading fur center in the world, a demise which commenced with the enactment of the embargo I have referred to.

We trust you will reject the ranchers' demands for legislative controls on the imports of this commodity.

Thank you for your patience in hearing us. The outcome of these hearings is vital to the trade we represent. I may add that the briefs of each of the two manufacturing associations, the Associated Manufacturers and the United Manufacturers, were filed by me yesterday and are most certainly in your hands by this time. Those briefs are both flatly in opposition to any of this legislation before you.

The briefs of the processors, the fur processors, will be filed with you within a week to 10 days. It is now in the course of preparation by their counsel. It will not be in the form of testimony but briefs filed before you.

The union spokesmen, who represent the entire labor force in the fur trade, are strongly opposed to this legislation and will make their own statement following the completion of our testimony here.

Thank you again, Mr. Chairman.

(The documents referred to follow:)

STATISTICAL SCHEDULE

To brief of American Fur Merchants' Association, Inc. dated June 9, 1970 (source of quantities and total \$ values—U.S. Bureau of Census Reports):

*U.S. imports for consumption*¹

Calendar year:	Million skins
1963 -----	4. 5
1964 -----	4. 4
1965 -----	4. 9
1966 -----	5. 7
1967 -----	5. 3
1968 -----	4. 7
1969 -----	3. 6
1st 4 months of calendar 1969 -----	2. 05
1st 4 months of calendar 1970 -----	1. 15

¹ Excludes Japanese mink and dressed mink which are imported in insignificant quantities (see page 70 of Tariff Commission 1968 Report).

RAW MINK SKIN IMPORTS 1ST 5 MONTHS OF PRESENT AND PAST 4 MARKETING SEASONS

[Total imports in thousands of skins and thousands of dollars]

	Quantity	Value	Average value per pelt
(1) December 1965 to April 1966 -----	3, 764. 0	\$55, 274. 0	\$13. 89
(2) December 1966 to April 1967 -----	3, 774. 7	42, 185. 5	11. 18
(3) December 1967 to April 1968 -----	3, 177. 9	36, 210. 4	11. 39
(4) December 1968 to April 1969 -----	2, 766. 4	38, 036. 1	13. 75
(5) December 1969 to April 1970 -----	1, 704. 8	18, 713. 5	10. 98

Decrease in imports

	Quantity decrease	Percent decrease in quantity	Percent decrease in average value per pelt
Reduction col. (5) from col. (4) -----	-1, 061. 6	-38. 34	-20. 15
Reduction col. (5) from col. (3) -----	-1, 473. 1	-46. 35	-3. 60
Reduction col. (5) from col. (2) -----	-2, 069. 9	-54. 84	-1. 79
Reduction col. (5) from col. (1) -----	-2, 059. 2	-54. 71	-20. 95

There appears to be no relationship between price declines and import declines. Other factors such as fashions and economic conditions here and abroad would seem to affect per pelt values, while lower demand in the U.S. and increasing demand in Europe, especially West Germany, have caused the shrinkage in the quantity of imports.

U.S. exports of mink skins

Exports of U.S. mink skins show an increase for the first five months of 1969/70 evidencing the support given the U.S. market by a stronger market in Europe. The following figures show exports in thousands of skins and average per raw pelt value:

RAW PELTS

	Quantity	Average value per pelt	Total quantity raw and dressed
December 1968 to April 1969 -----	631. 2	\$17. 41	742. 8
December 1969 to April 1970 -----	866. 5	13. 37	1, 061. 2

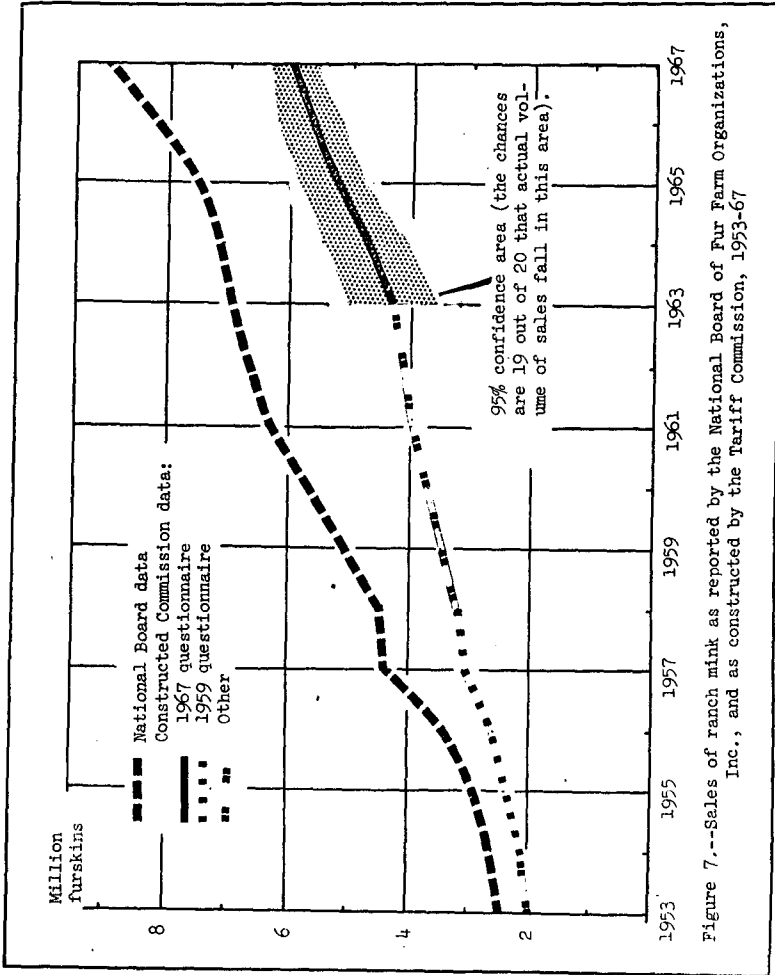


Figure 7.--Sales of ranch mink as reported by the National Board of Fur Farm Organizations, Inc., and as constructed by the Tariff Commission, 1953-67

Mr. ULLMAN. Does that conclude your testimony?

Mr. SHARP. Yes.

Mr. ULLMAN. Without objection, the supplemental materials have been included following your statement and will appear in the record.

Mr. SHARP. Thank you.

Mr. ULLMAN. Are there any questions?

Mr. Byrnes.

Mr. BYRNES. Just as a matter of information, do either of you represent, or have any interest in, any Scandinavian interests of any kind?

Do you represent any Scandinavian group directly or indirectly, or a government, at all?

Mr. SHARP. I personally have, for some years, had a modest retainer from the Scandinavian fur farm organization, which is what might be called a counterpart of the National Fur Farm Board who testified this morning.

The Scandinavian Fur Agency, Inc., of which Mr. Hessel is the president, is an agency which helps clear the furs that are sold in the Scandinavian auction so the buyers from New York or elsewhere after they enter this country.

Mr. BYRNES. Is this an agent of sorts?

Mr. HESSEL. It is a clearance house for the financial payments of the shipments made to the United States.

Mr. BYRNES. By the Scandinavian?

Mr. HESSEL. By the Scandinavian auction companies.

Mr. BYRNES. Thank you very much.

Mr. ULLMAN. Are there further questions?

You have done your usual thorough job of presenting testimony. We appreciate it.

Thank you, Mr. Sharp.

Mr. SHARP. Thank you.

Mr. ULLMAN. Our next witness is our colleague, Hon. John H. Dent.

Whenever John Dent appears before this committee, I want to say it is a real occasion. I would advise the staff to notify the members. We will fill up all these seats. We always get the message straight and clear.

You may proceed, sir.

STATEMENT OF HON. JOHN H. DENT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. DENT. Thank you very kindly, Mr. Chairman and members of this very distinguished and important committee of the Congress of the United States.

I might say that I believe that the most important decision of the past 50 years or next 50 years on the matter of international trade, which is so deeply entwined with the welfare of this country, will be made by this committee.

I do not intend to read this testimony, but I would like to ask permission to submit it for the record.

It has long been my opinion that neither this Nation nor any other nation can survive in a free trade philosophy world as a high-cost nation dealing without barriers, restraints or covenants on imports and

exports with nations that do not have the same cost ratio in their product.

In my studies as the chairman of the Committee on the Impact of Imports, and in the studies we have made in various countries of the world, we have become convinced that trade may have been in the early beginnings a means of support from one country to another in products and commodities not obtainable in countries that did the importing, and surplus in the countries that did the exporting.

Apparently, most of our philosophy on free trade started when Adam Smith condemned the then American philosophy of mercantilism and promoted his very fine economic thesis on the wealth of nations.

However, at no time did Adam Smith ever envision that we would be trading just for the sake of trading, not basing that trade upon needs, not basing it upon what was necessary for the welfare of the peoples of a certain nation as against those of another nation, but really trading only for the simple and illogical reason of balance of trade based upon sums of money.

A country's balance of payments can be simply computed by any eighth grade economist by deducting the value of imports from the value of exports.

But it is not that simple. For instance, a very simple equation would be the matter of cotton that is sold to Japan. If you sell \$800 million worth of cotton and you only buy back \$500 million worth of textiles, do we have a balance of trade? We do if we are measuring it in money.

But in an economic complex such as we live in, it must be measured in the amount of labor displayed. You cannot measure trade any longer by dollar volumes.

It is very easy to put all the industries in the United States on a board and shoot a dart at it. No matter where you hit, you will find injury. Some say that is not right, but it is right.

We have tried in some of the rather insignificant industries. For instance, suit buttons. We only have one such manufacturer in the United States, and 90 percent of his product comes through the import route.

When for instance, half of the men's suits in the United States are made out of imported textiles, and 90 percent of all the transistors in this country are imported, an import invasion can be just as disastrous as a military invasion.

In every military operation in the history of the world it has been the prime objective of the contending powers to destroy the productive facilities of the other nations, because that is the thing that destroys a country's capability to wage war.

We helped the world on two—and if you count Korea—we don't know yet what the results of Vietnam will be—we helped the world on three separate occasions.

We didn't do it because we were able to send millions of men under arms into battle. We did it because we were strong enough both economically and productively to produce the only things that win wars, the sinews of war.

We can't even at this date—and I say this from on-the-scene inspection in many countries—can't even supply the logistics for the Vietnam war out of our own productivity and resources at this moment.

Let me give you the latest countdown that came through not over a week ago. It doesn't cover all of the items because it would be many hours before I could get through in that kind of a record if I wanted to make it. How many of you know that the U.S. automobile production in the first 5 months of this year was down 10 percent, and the import part of the market has increased 10 percent, and the Japanese cars which have only started their invasion—they are hardly across the Mississippi coming eastward—gained 40 percent in the month of April as opposed to the month of April last year?

When we say 10 percent, we are talking about a million vehicles that we are down, if the trend continues for the rest of the year. They say it is because of the economic letdown. Certainly the economic letdown has a great deal to do with it, but what is the economic letdown and where does it stem from? What is the source of it?

Here is one unimpeachable source because the Tariff Commission and your own Secretary of Labor apparently decided that my testimony was somewhere near the truth, because they awarded adjustment assistance for the layoffs at the glass company in my district. They went back to 1968, to February to grant that assistance.

Why? Simply because this committee is sitting in session, because we have been asking for that assistance since 1966. This is the same old deal that we got in 1960 and 1961, in 1962, when voluntarily the exporting countries cut down their exports to the United States.

Japan is doing the very same thing in steel today. Yes, there is less tonnage coming in, but they changed their product mix. So moneywise we are spending more money for less tonnage.

When they talk to us about trade, they talk to us about tonnage, when it comes to steel. When they talk to us about trade and they talk about textiles, they use the money value.

Part of the testimony will be a letter sent to one of the largest tool steel users in the United States, who testified before my committee. In the letter the Japanese importer offered to change the origin identification for about \$2 a ton if it embarrassed the purchaser in any way.

Tool steel sold for as much as \$4,200 a ton less than American tool steel and polished the second stage beyond what we were able to polish. Let's consider why. The fringe benefits in the steel industry are \$1.60, the fringe benefits. The average wage is \$3.92 plus the fringe benefits.

We haven't had a chance to take a trip this year to find out what they are—and that, my dear Mr. Chairman and members, is the only way you will ever find out anything about wages that go into steel or wages that go into any product. You have to be on the scene.

Their wage is \$1.25 an hour and the so-called fringe benefits. One of our largest costs, of course, is unemployment compensation. In some of these areas they do not carry unemployment compensation because they have certain types of government regulations that say once they employ a person, they can't lay that person off except for reasons that are extraordinary. So they say, "We carry our own unemployment compensation."

Well, if we had a month layoff policy in our country, unemployment compensation wouldn't take what it takes out of our payroll.

In some instances the social security tax paid by the U.S. worker and the U.S. employer is greater than the wage paid by a competing

product producer overseas. My mushroom people in the State of Pennsylvania lost 40 percent of their entire mushroom production after we planted mushrooms in Taiwan and now Korea.

The wage paid is 6 cents an hour for those up to 16 years of age, and those over 60 years of age, and 15 to 18 cents an hour for the in-betweens. Our hardwood industry, which was the source of our veneers has been under the craziest type of voluntary and involuntary and executive type of agreements, and every one of them has been violated. They even forced our veneer makers in the United States to cut their veneer from .027 of an inch to .032 of an inch, changing their entire furniture manufacturing programs in the United States.

It was done so that Japanese, who were producing the lesser size, the lesser thickness, were already producing it. We didn't say to them, "Come up to our specs."

I defy anybody to go into a store today and try to buy a piece of furniture made in America and get it in less than 6 to 12 weeks waiting time, because of the impact. I think of the great free trader in the true sense of the words that many of those who come before this committee and my own committee, and other committees of this House, and profess a deep and abiding faith in the freedom of trade, when there isn't a single country that is demanding freedom of trade that will allow the freedom of peoples; without the freedom of peoples you can't have the freedom of movement of goods.

We have more restrictive covenants in the State of Pennsylvania than the Federal Government has against the very same products that we restrict. My good friend, in my State one knows if he tries to take a bottle of whisky from this State up to a city in Pennsylvania, he is grabbed at the border. You lose your automobile and almost lose your life.

But I can bring five bottles in from anywhere else. We could, until the whisky importers decided there was too much whisky coming in in that way, so they limit it to one bottle. So usually we buy the biggest bottle we can get.

Let's see what my people say about the trade adjustment. This seems to be the very long suit of the proponents of this legislation, the Gilberts and Stans, Rogers, practically all of our commerce people and our Secretaries of State since way back in the Roosevelt days when the first reciprocal trade agreement was passed 35 years ago.

There will never be a letting up on the demand for freer and freer trade. Soon there is no trade at all. The narrowminded people, the narrowminded executives, who are operating the runaway industries all over the world don't realize that when they do not provide the labor to produce the goods that they are putting into the marketplace, there is going to be less marketplace for them to put the goods into.

This country survives as an independent industrial complex on three strong columns: production, distribution, and consumption. We have developed a method of having consumption become the prime factor and the prime interest. All we hear about is the poor consumer.

What has happened to the poor consumer who used to buy the Japanese transistors, cameras, and binoculars, and foreign watches, for one-third, one-fourth, and as much as one-tenth in many instances of the American-made product? I will tell you what has happened

to him. He is paying as much or more for the same products that we could be producing in this country today if we had stayed in business.

I warned 10 years back about the plight of the coal industry. I told the then Director of the Bureau of Mines, the Secretary of Interior, and the President of the United States that we had 1,000 years of coal reserves already mapped out. God knows how many more years there are that have not gone into the survey.

That was at 600 million tons a year, and we would reach 600 million tons a year within the next 10 years. But we would not be able to produce it because the mines would be shut down and you don't just open a mine the minute a powerplant needs coal. Today at this moment the shortage of coal in this country is becoming a critical situation in the production of power, which is the sinew of all of our production in this country at this moment.

Six hundred and fifty black workers were laid off in a city of 23,000 people, which had around 17,000 production jobs not over 20 years ago, supplying the production jobs for the city itself and all of the surrounding hamlets and townships. At this moment that I am here before this committee today, that community is down to 1,700 production workers.

All of the Wearever aluminum has gone overseas. They are just shutting down the last plant at Chillicothe, Ohio, the last plant that made Wearever. They have announced that by September, the Aluminum Co. of America will be entirely out of homeware goods of all kinds. Westinghouse gave up making televisions. Zenith just announced a 3,000-man layoff for the balance of this year and upon sending up an investigator, I found they had already laid off 3,200.

One of the sad parts is that deep rooted in this entire thing is a very serious matter that other committees are going to have to look at, which we are now studying, the question of what is happening to men like this who have not vested in the private pension systems and find themselves having worked 30 or 40 years.

These are statements from men who were interviewed at Arnold, Pa.:

There are few of the 650 men who have been laid off since the glass company began to cut back in 1967 who are in an age bracket able to take advantage of so many high-sounding programs passed by Congress and trade adjustment relief.

They call it relief. In fact, one man says it very plainly. He said:

We want jobs, not relief. Present tariff regulations on glass amount to subsidizing foreign competition that caused these men to lose their jobs in the first place.

What else is it, when you pay 80 percent of a man's wage not to produce glass? What are you doing but subsidizing a worker somewhere else? What is the difference whether the Japanese come in and bomb that plant out of existence in Arnold, Pa., or send their glass over here and bomb those men out of existence? It is that simple.

We have reached the place where in this decade this committee can do one of two things: It can keep on making the mistakes we have made in the past—and I am sorry to say that while my name is on every bill before your committee crying for some kind of relief, it is there because I am hopeful something will be done. Once you start

into one industry, you will uncover the sores, weaknesses, and sicknesses of all the other industries.

So I sponsor them, but I am not agreeing with you. Quotas have never worked. They never have and they never will. The history of quotas prove they will not work.

For instance, I am a contractor and I am bidding on 100,000 tons of steel to put up the new Chrysler Building. I have access to foreign steel and I can save \$35 a ton. How is any other American competing contractor going to get that bid away from me? Where do you come with quotas?

We have to change our entire philosophy and change our entire thinking. We have had a study made at Georgetown University, the greatest statistical study ever made for \$11,000. It shows beyond a reasonable doubt, with samplings of over 400 different industries with various sizes of productivity—this study showed beyond a doubt a foreign-made product in our economy reaches 5 percent the growth of the U.S. industry is stalemated.

Every percent over that 5 percent cuts into that particular industry's total production and its employment. Here is a man who wants this question answered, and it is a reasonable question:

This man is 58 years of age. He has worked 38 years for the glass company in Arnold, Pa. He was laid off in November 1967, 2 months before the Tariff Commission set as the first date for relief under the Trade Adjustment Act. He gets neither trade relief nor does he have an opportunity to go anywhere to get a job. Certainly he will never be able to vest in another insurance plan that pays him a pension. He is living on \$60 a week with four kids.

That is all his two-thirds pay under the Pennsylvania workmen's compensation regulations amounts to because it is based on quarters and his last quarters were part-time work. There is not a wisp of smoke from a chimney in this one community of 10,000 residents, Arnold, Pa.; not one. It has pure air now, but it doesn't have any people working.

This was the largest single tax-paying unit in that community. The \$8,000 of payroll taxes went in on a 1-percent payroll tax that we have in our State; in many communities the local tax is 1 percent for schools and 1 percent for the community. It is \$8,000 to the community and \$8,000 to the schools.

The remaining people in that community will be taxed at a heavier rate to meet what? To meet a lessened ability to pay taxes. And yet the very same people who come here and testify—I know, because they have testified before me—say, "Well, under the Trade Adjustment Act we are going to make it possible for these industries hurt by imports to compete by the advice we are going to give and the money we are going to put into can compete."

If you think the threat of retaliation is only based upon what you do in tariffs, then dissuade yourself of that idea, because once you get an industry able to meet the competition, you just bet that the same bitterness, the same threats will exist. I remember when labor threatened that, if their plant were mechanized, they would go on permanent strike. But they didn't do any such thing.

And I am not too disturbed about anybody telling us they will retaliate. If they have it in their mind, they will retaliate on that given

day when we have to stop imports, and that given day will come. I have heard your testimony, a little bit of it, in here, and I have read some in the papers.

Ten years ago the mink ranchers came before my committee and said what was going to happen. You know what? It happened. We were one of the largest mink ranching States in the United States of America, and we may still be.

We have a problem in Pennsylvania. We are the largest mushroom growing State in the Union. We are the largest cigar tobacco State in the Union, the largest steel producing State in the Union, the second largest coal producing State in the Union. We grow more tomatoes in Lancaster County than they do in the whole State of Iowa. We have everything to lose and we are losing.

It is a blind philosophy and I was as blind as any of them 10 years ago. I was the greatest free trader that ever lived. I was sold the idea that the consumer had to get a break. Let me ask you a question: Who is this consumer? Is this consumer a person who can't afford to buy the products he makes?

Do you think it is logical for an automobileworker or a steelworker making \$3.92 plus \$1.62 fringe benefits an hour demanding the right to buy a shirt produced by a Hong Kong worker who makes 15 to 20 cents an hour? When you buy that shirt, the \$2.40-an-hour shirtmaker in the United States isn't producing shirts.

In our economy he can't buy automobiles. If you can't sell them to him, how are you going to sell them to the 15-cent-an-hour worker in Hong Kong?

Here is what Hong Kong says about it, and I think it is very interesting. It is the kind of propaganda we are fed day in and day out.

Let me show you some of this: "With a population of 4 million, Hong Kong spends \$4 per head on textile products, namely, cotton, machinery, electrical, and nonelectrical." But the machinery that they buy is for their production of more textiles.

We are not a colony. We are not supposed to produce raw materials. Let me tell you, production machinery today is a raw material the same as cotton, hardwoods, or any other sum or substance that goes into the manufacturing of a product. And so they say that they ought not be considered in any legislation on quotas or restrictions simply because their population spends \$8 a head on textile fibers and textile products. They have 4 million people.

If my arithmetic is right, and if we are using the dollar volume as a criterion, that means they are buying \$32 million of textile products from us. However, the United States, with a population of 205 million people buys \$2 a head worth of textile products from Hong Kong, and this is their own release.

I don't know how they felt that was going to impress anybody, but it certainly doesn't impress me. Every bale of cotton that we sell them costs us \$42.50. Not only do we have to pay the \$42.50 from the Federal Treasury because we buy it for more than what we sell it for; we also have to give the \$42.50 to the American textile mills in order that they may be able to compete.

So every bale of cotton of 500 pounds grown and packed in the United States costs the American taxpayers \$42.50. We would be a

lot better off if we just quit growing cotton and bought it. It wouldn't cost us much more, and especially if we could sell our textiles.

I was at the Commerce Department and they have a big display over there. They were showing how we had a \$5 billion balance-of-trade payments in our favor from the earnings of our American foreign investments. But what they failed to tell you was that five major industries—automobiles, textiles, steel, radios, TV, and shoes—on their own chart—but they never pointed to this one—it shows a loss of \$4.6 billion in only five industries on the balance of trade in this country.

You can have any kind of a figure you want, but when I walk into a plant in Hong Kong and see 5,500 workers working for \$30 a month, 10 hours a day, 6 days a week, producing exclusively products for Fairchild Camera shipped over here on foreign-flag boats, put into the bloodstream of the American commerce in competition with \$3.35-an-hour labor in their own plants in New Jersey and so on, then I look out the window of this plant and I see the U.S. fleet down there spending billions of dollars to make sure that their productivity is insured and not taken away from them or burned by riots.

I asked them who was supposed to pay for the environmental problems we have in this country, and where did they think the money is to come from? They said that the reason they were there is because they had to compete with Japan. That is the same excuse we are using, the very same excuse we have used in the State Department to build the Proneff Territory on the Rio Grande River.

I went down on my own, spending my own money, because I wanted to see it unofficially. In the last 3 years we have created 50,000 jobs in the Proneff Territory, the wages run from \$1.70 to \$3 a day. In the very same plants across the river, across the Rio Grande, the hourly rate in that same industry is \$3.35.

They comingled the products under section 807 of the tariff law and get a special consideration or tariff treatment. I understand the Japanese and others in Hong Kong, and some of the others, complained about it so the Tariff Commission is considering raising the tariff, not to protect them but to protect their products from their country coming into this country.

I honestly believe, Mr. Chairman and members of this committee, that if I had a problem with the Tariff Commission, I would work it through some channel outside the country and probably get a better hearing.

I remember when we complained, when the Schwinn bicycle people tried to get protection against the English bicycles that were running us out of the country, and I mean running us out really. We couldn't get relief for 20 years, and all of a sudden the Austrians started sending in bicycles.

What do you think happened? At the very first petition before the Tariff Commission by the British against the cheaper Austrian bicycles coming into the United States, they got relief.

There is nothing that I can say to you that isn't contained within the records of your own hearings, except to try to give you my sincere belief that unless this committee does something about changing the whole philosophy of trade, this country is not going to last as an industrial complex.

I will debate it with any person who wants to debate. I am doing it next Monday in Pittsburgh with Mr. Stitt, the representative of the Japanese Trade Council. I am not even going to say anything new. I will just read him what I said 10 years ago, because everything I said then has happened.

I am no clairvoyant and I am not smart. My entire formal education stopped at the eighth grade, because at that time there were a lot of jobs. Now the kids can't go to work, so they have to go to school. That is why we have so many smart kids today.

The next industry that is going to get the bite, and when it gets it, you think you have troubles today—with textiles, shoes—glass you can forget. It is dead. If you don't believe it, just go into the hand-made glass in this country and see how much you can buy of it.

You see, that is the theory of George Ball and many of our great Commerce Department and State Department people. That theory is that this country ought to get out of the nonsophisticated goods, that we ought to give up on unsophisticated goods and let these other countries take over in the making of unsophisticated goods.

They use as an example Steubenware. I doubt if there are more than five Members of Congress who can afford Steubenware and we get \$42,500 a year. This country was made what it is by a fellow named Henry Ford, who saw way beyond the mass production as such. Everybody recognizes that you have to have a mass production in order to have a mass market for the mass production. You have to believe in a high wage theory.

When Henry Ford came out with the \$8 day, he sparked the manufacturer that made this country industrially great. Then after World War II, when we decided to spend our money in foreign aid, we did it as a humane gesture. But we have allowed the State Department to take it over where it is no longer humane because all we started out to do was to put the devastated countries somewhere near their level of economics, both in productivity and consumption, that they were at before the bombing started.

All you have to do is to take a trip to Italy, West Germany, and Japan. If I remember right, they were on somewhat the other side in this war. They haven't gone long, far and away from becoming what we said.

I heard Jack Kennedy make the statement standing near the Liberty Bell in Independence Hall in 1961 when he said foreign aid had to be kept up because we had to make each nation in the world, on its timetable, independent from depending upon other nations.

So we are somewhat now in the position of taking care of the unfit and making the fit unfit. We have become dependent upon foreign products.

Any of you who question that had better take a quick look at some of the figures that may interest you; 13 percent of steel, 17 million tons, 7,000 direct steelworkers are involved in every 1 million tons of production of steel. Three other workers are dependent upon every production worker in the United States.

The service industries are the largest employers today. At the turn of the century there was one forty-seventh of a worker in service industries for every worker in production. Today there are 3 plus percentage service industry workers for every worker in production.

In the automobile industry, the percentage of our entire market taken last year was 18 percent. I have given you the figures of the gain up to the end of April this year. Woolens constitute 26 percent of our entire market—and we are not talking about Podunk. We are talking about the United States of America, 50-sovereign States depending upon foreign production for 26 percent of their woolens, 30 percent of their televisions.

However, this information was compiled without giving consideration to the little known fact that apparently there will be only one U.S. manufacturer of color televisions after the first of January 1971.

Sewing machines, 40 percent; shoes, 33 percent. He doesn't have the latest figures. They are contained in here. I received them this morning and you will have them in the testimony. Sweaters, 42 percent; electrical calculators, 43 percent; table radios, 80 percent; portable radios, 95 percent—of the entire American market; 86 percent of all the plywood paneling, 78 percent of all the baseball gloves, 92 percent of all the fine china.

I am not talking about dream figures. I am talking about a nation that has become dependent upon world production for its very existence in the goods that they consume. If you don't buy the goods that you consume from American production, you will soon have exactly what we have today. We have the greatest unemployment in the history of this whole United States or any country in the world. Let me measure it for you and I will do it roughly.

I went through the Hoover depression. As you all remember, it was about 15 million people. But you didn't have 26 million Americans living off social security. They were considered unemployed in those days, because you were considered a worker until you died. They were counting kids that had quit school, whether they quit in the eighth grade, the 10th, 12th or 16th, he was an unemployed figure. They don't count those kids again.

We are actually counting only those who have had jobs and have been laid off. That figure is as phony as a \$3 bill. There are 12 million other Americans dependent on relief that were counted as unemployed in the days of Hoover. They say there are 4.5 million directly unemployed persons that they count. We forget a massive 6.5 million in governmental services. We forget between 9 and 10 million in our armed services and allied support services.

These people are not producing goods, so I tell you that there are three Americans that have to live off of every production worker. Whether you take that production worker out of a glass plant, a steel mill, or you take him off of a tomato farm or strawberry patch, or you take him out of a coconut grove, or citrus orchard—I don't care where you take him—that worker producing is the basic strength of an industrial complex. That is why every nation is fighting for it.

We have done many things that are wrong. I noticed the other day, and to me this wasn't a good item to read, but whoever wrote it thought it was great for the United States, someone said our agricultural economy is picking up. Certainly it is. We are relieving the people from all over the world of growing their own goods.

We are growing them here in the United States like a backward colony somewhere deep in the jungle somewhere. We are growing their

products for them and they can release their farmworkers and put them into industrial capacity because that is where they are needed.

Late last year on an investigatory trip, our committee saw a prototype mockup of a roto-tiller. If there is one thing that is an American product and used almost exclusively by this great country of home gardeners we have, it is a roto-tiller. Do you know what it is? It is a simple machine, a two-wheel job with a lot of little blades that cut up the ground.

I have a garden 50-feet long and 12-feet wide and I wouldn't be caught dead without the thing. I don't need it, my toe can do the same job. But it is real nice. It is a sort of prestige job when you live in the suburbs. It is like a tractor. You've got to have one, even if you just ride it on Sunday morning to wake up the neighbors.

Let me tell you you will be out of the roto-tiller business because Honda, who already has enough salesrooms for their motorcycles and motorbikes all over this country—and it says so in the full-page advertising in the *Mechanix Illustrated*—Honda makes a roto-tiller and advertises it as the finest machine ever made in the world.

It probably will be. You see, that is another result of our trade policies. We are making the shoddiest goods in the world and they are making the best. Why not? Why shouldn't they? They are not going to make roto-tillers for the Japanese people.

I have seen their gardens. That is aimed exclusively at this market. That is what Adam Smith meant when he said:

Trade freely with one another. Produce the goods that you produce best and let him who produces other goods better produce them, and trade with each other.

Adam Smith never figured that we were going to trade automobiles with each other. Incidentally, we don't do much trading on automobiles.

This committee has before it the most serious legislation. Maybe what I am saying is all wrong and the whole world will come tumbling around our ears, but I remember the early 1950's when they predicted just that, when the Randall Commission came over and convinced the then President of the United States, General Eisenhower, that the number one priority in 1954 had to be a lowering of the tariff.

This committee refused to do so, and the Congress refused to do so. They predicted dire results. They said that the whole world would tumble.

They are still blaming World War I, you know, on the Smoot-Hawley Tariff. Good God, it didn't go into effect until the war was over. We are kind of funny people. The trouble is we never question these free trade people. They throw a figure at us, but we never question them.

I do, because in 1954—and it is contained in this testimony—it was the most prosperous era in the European theater, which was next to ours the next manufacturing bloc in the world. It was the best they had ever had.

Let me give you one or two figures to show you what happened in that year.

At the year ended in 1954, listen to this: When we refused to lower tariffs, Britain, in 1954, had the most prosperous year in their history.

In France, 1954 was the most prosperous postwar year. In Italy, the national income increased 4 percent and in Germany a vast industrial and export expansion occurred in 1954. In Switzerland the boom persisted throughout the year and the next few years.

In Holland, shares on the Stock Exchange recently hit their highest level in over 15 years. Finland, Portugal, Pakistan, and Japan shared in the upward surge of business.

The dire results predicted for the economies of our allies just did not take place in spite of the fact that Congress would not be stampeded into tariff reductions.

I heard a witness say you ought not to be stampeded into doing anything, give it to the Tariff Commission. Why wouldn't you? Why wouldn't they ask you to give it to the Tariff Commission?

I told you that if you want something done, get a foreign agent to go before the Tariff Commission and you will get relief.

Mr. GIBBONS. I think the gentleman is making a very important statement. We have had that illustrated here, I think.

Let me ask you a question, Mr. Dent.

You said we should reject these quota bills. I am inclined to agree with you there. I respect the gentleman's views because I know he has spent many, many years studying this question very thoroughly. I know that he has firsthand information.

If we reject the quota bills, then we have before us the administration trade bill which abolishes ASP and gives the President the authority generally to negotiate tariffs down by 20 percent and then, as somebody described a while ago, we would give you readjustment allowance or the money to bury you with.

What do you think we ought to do?

Mr. DENT. Very frankly, Congressman, quota bills won't work. I believe very much in what has been said by many Americans before, and especially Patrick Henry. He said, "When you want to know where you are going, look where you have been."

Where we have been in quotas is just disastrous. It doesn't shape up. It will not give us what we are seeking. However, if you can't, in the wisdom of this committee, come out with a new philosophy of trade which is based upon this century and not previous centuries, I would say to all of you right now that everything that has gone on before in the matter of world trade has to be prologue, that you start from now as of scratch, and from there you build.

You say what do you do. It is very simple to do. It is being done in one way or another by almost every country on the face of the earth. They just don't import the things that they make in surplus. When they do, it is a token import.

On the things they produce in surplus, they say to you, "If you do that to us, we will retaliate." Does that mean Japan will not buy cotton from us? Does that mean our subsidized wheat will not sell in the world market? Or does that mean that they will keep their embargoes on our automobiles?

The question is not easily resolved. They say about the old farmer traveling through Pennsylvania and he gets into the Pennsylvania Dutch country and sees an old couple sitting on the porch rocking away. He was lost. He said, "Could you straighten me out a little and tell me how to get to Cherry Hill?"

The Dutchman said, "Well, you go down the road about a mile and you turn left." His wife said, "No, you turn right." She said, "You go down about 2 miles."

After going back and forth for about 5 minutes, the gentleman turned to the traveler and said to him, "You know, I don't think you can get to Cherry Hill from here." That is exactly what we are up against. We are taking the position we can't get to Cherry Hill because everybody has their own ideas of what ought to be done.

One thing for sure has to be done: Cost equalization has to come into this thing and get away from this foolish idea that the consumers have to be protected. The consumer in this country is the man who has made the price of the product what it is because he is the producer. The consumer can't expect to get a pay raise of anywhere from \$1.26 for a 3-year period, or 76 cents for a 3-year period, and then expect to go out and buy some product made somewhere else and expect the operator to pay him that money and then raise heck because he is not allowed to pay these cheap wages.

Mr. GIBBONS. You have been investigating wages for a long time, Mr. Dent. Has your committee published any data on comparative wages around the world?

Mr. DENT. We have about 10 or 12 statistical publications on it, but the only ones that I rely on are the ones I have compiled on my own and with my committee, when we went into the plants and looked and got the prices. I want to tell you if you want any specific wage level, ask me what it is and I will try to give it to you here right now.

Mr. GIBBONS. One of the problems we have had all along is the allegation that the Japanese wage scale, as an illustration, is so much lower than ours on all fronts that we could never possibly compete against them in anything that is it at labor intensive.

Would you give us any figures on the Japanese wage scales in the textile industry, for example?

Mr. DENT. Sure I can give you some. I will give you some on electronics. I went into a plant where the women were running the very same machine that is operated by the electronic workers in the United States for the various companies, General Electric, Westinghouse and the rest of them.

It was set at exactly the same rate of production on automatic control. This was 4 years ago that we made that trip. At that particular time the wage in the United States was \$2.20 an hour by contract for one person to run one machine at a specified rate of production.

We found in Japan the same machines at the same specified rate of production with one woman making 17 cents an hour running two machines.

We went into the largest steel complex in Japan, which, incidentally, has reached the stage where now it is the largest in the world, and the wages were \$1.25 an hour plus what they call fringes. We couldn't get any figure on fringes.

The going rate of wage in the electronics industry when we were there in Taipei was \$40 a month.

Here is an interesting thing about Taipei. I just received this and it might interest you fellows. This is from the wine people of the United States of America who are very cognizant of the fact that we have a

great deal of industry, American industry, in Taipei, and we do quite a bit of commuting back and forth.

We believe that along the line this country has sent a few billion dollars over to Taiwan. Here is the booklet that gives the price schedules of the monopoly on liquor and wines. They sent me this booklet because they have been trying to get an American wine listed in Taiwan.

Finally they got one brand of California wine. But on April 1 they delisted that. This is what Wilbur Mills, I think, said when he couldn't find much reciprocity in the so-called reciprocity agreements that we tried to make.

It isn't a price situation or a friendship situation, because they buy most of their wine from France who doesn't even recognize them diplomatically.

Mr. GIBBONS. I will not monopolize your time. I appreciate the fine comments the gentleman has brought.

Mr. ULLMAN. John, you have really given us food for thought. I agree with you that we have a great challenge, but I also agree with you that the answers are not simple. They are very complicated and tough.

Mr. SCHNEEBELI?

Mr. SCHNEEBELI. I think we have been trying to determine specifically how do you go about stopping our incoming imports? What do we do?

Mr. DENT. Ask the fellows who come here and ask you not to stop it. Ask them how they stop ours.

Mr. SCHNEEBELI. It seems to me there are two alternatives: Either you have an orderly marketing quota or you have higher duties.

Mr. DENT. If you have quotas, it must be tied to a price structure. Simply and very frankly, you ought to do what is done everywhere in the world. No product can enter any country when the wage portion of that product is less than the wage portion for the product made in that country.

Mr. SCHNEEBELI. I don't follow that.

Mr. DENT. My dear sir, if all goods traveled at a price structure—for instance, you heard about diamonds this morning. There is no problem on diamonds. They all travel at the same price structure, no matter what they are paid for working.

Mr. SCHNEEBELI. I don't follow your theory. Suppose in this country the labor costs on steel, let's say, are 30 percent and 20 percent in Japan. What do we do here?

Mr. DENT. Many countries do it by different methods. For instance, this country just wouldn't list the wines so they stop our products. Another country will have a border tax, like West Germany. The minute they reduced their tariffs after the last Kennedy round tariff giveaway, they raised their border tax from 7 to 10 percent, which gave them more money than the tariff used to.

Other countries have what they call a licensing procedure. You have to get a license to import. That is the only way you can control quotas. Unless you do that, quotas are absolutely useless and worthless.

Mr. SCHNEEBELI. I recognize that there must be some alternatives to quotas and I wondered what specifically your ideas might be.

Mr. DENT. My opinion is that you would establish what would be a single industry's injury point, and at that injury point you give a license or series of licenses to whoever is going to be the importer. If you don't do it, here is what you are going to get.

I want to ask you how can you establish a quota for tape recorders that are now 90 percent of your market? What do you do?

Mr. SCHNEEBELI. You might go back to 1962, I don't know. You asked the question. You go back to a point where we had a bigger portion of the market.

Mr. DENT. What is that?

Mr. SCHNEEBELI. You go back to a point in time when we had a larger percentage of the market in domestic production.

Mr. DENT. It isn't the larger percentage of the market. The largest percentage of the market has to be based on what kind of conditions were in that individual industry. If in the production of 1962 we had 50,000 workers in the industry and they were producing, say, 70 percent of the market in the United States, and there were 30,000 that had already been decimated by the impact of imports, assume that you had 100 percent of the market and you would have 70 or 80,000 workers in the industry.

So what you are going to have to say is how many workers we take care of on relief. That is all. It isn't a question of the quota of the product. It is the quota of the job potential in the industry.

Mr. SCHNEEBELI. If you can spell that out specifically, or if you could send me a letter on it, I will be interested.

Mr. DENT. I will be glad to. We have many studies on it.

Mr. SCHNEEBELI. Thank you very much.

Mr. ULLMAN. Are there further questions?

If not, thank you very much.

Mr. Vanik?

Mr. VANIK. Mr. Chairman, I want to say that I very much appreciate the statements made by our distinguished colleague. He has really worked and labored on these problems. I am very happy to have his observations for the record.

Mr. ULLMAN. You have made a great contribution to the committee. We appreciate it.

Mr. DENT. When should I submit this for the record?

Mr. ULLMAN. Without objection the record will be held open at this point.

(Congressman Dent's prepared statement follows:)

PREPARED STATEMENT OF HON. JOHN H. DENT, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF PENNSYLVANIA

Mr. Chairman and members of the committee, I do not intend to read all the testimony I have with me. I would like to ask consent to present the same to the Committee for inclusion in the record at this point and allow me to summarize some of my thoughts and facts concerning trade legislation.

First of all, let me state that it is my humble opinion that this Nation nor any other nation, can survive in a free-trade arrangement when one has a higher cost of production than another. This does not mean they cannot trade certain

products from some high-cost nations with certain products from some low-cost nations. If we allowed everything that happened before 1954 to be considered prologue, we could start at that date March 30, 1954, when the President of the United States presented deeper tariff cuts recommended by the Randall Commission.

Thirty-five years ago, we passed the so-called Reciprocal Trade Agreements. Over these 35 years, the United States has progressed to the point where it now has lower trade barriers than any other major trading nation in the world. In the first 20 years, tariffs had been reduced by 71 per cent below the level prevailing in 1931-34, to the point where overall they amounted to about 5 per cent on imports. The numerous barriers imposed by other trading nations are virtually unknown in the United States. Quota limitations are employed by this country only in the case of agricultural products under price support. Embargoes, import licenses, non-convertible currency, dual rates of exchange, and other restrictive practices followed by other trading nations are not employed by the United States. Putting it bluntly, with respect to trade practices, the United States is "a knight in shining armor" compared to other nations of the Free World.

Nevertheless, the desire for further reductions continues. On March 30, 1954, the President of the United States, submitting proposals for deeper cuts recommended by the Randall Commission, said:

"Together we and our friends abroad must work at the task of lowering the unjustifiable barriers—not all at once but gradually and with full regard for our own interests. In this effort, the United States must take the initiative and, in doing so, make clear to the rest of the world that we expect them to follow our lead."

The Congress did not see fit to concur. For this, Congress was called "stubborn". The American status quo on tariffs was maintained for another year.

This decision was no doubt influenced by our Nation's experience since 1934. The failure of other nations to follow this American lead over the past twenty years had raised a question as to the practicality of the President's position: that the United States should, or must, continue to take the tariff lead on a "do-unto-others-as-you-would-have-done-unto-yourself" basis.

Parallel tendencies to take down the barriers have definitely not been evident among other nations. While the Nazi Germany of Dr. Schacht's heyday is dead, his techniques are not. In fact they are very widespread. European trade barriers are as bad or worse than ever. Stringent exchange controls are the norm, and dual currencies are widely employed. Strict licensing and quota limitations are set to protect domestic industries. Citizens of these countries are not free to travel abroad at will. State trading demoralizes private initiative. Cartels everywhere are rampant.

This all makes it clear that twenty-one years of trying to be a "good" example had not been fruitful. In fact our American policy can hardly be said to have succeeded. Even if such a "free-trade" policy were correct in the first place—and with this I take strenuous issue—it is not working. Hence, a severe and objective review of its operation is needed, along with a questioning of the basic policy itself.

In this Congress, proponents of free-trade are generating vast propaganda to convince the American people that increased international trade is a bulwark in each of the free nations. It is alleged to be essential to European prosperity. It has even been maintained that, unless the United States takes down its tariff barriers, the free nations cannot attain that standard of living which is essential to discourage villainous designs of the Kremlin and its agents.

Similar propaganda waves were directed at the American people in 1953 and 1954. The Congress, nevertheless, failed to act upon the 1954 recommendations of the Randall Commission. Did the prophecies of evil consequence come true? What are the facts?

As of the year end, the economic situation in Western Europe has been better than at any time in its history. There follow some typical year-end reports:

In Britain, 1954 was the most prosperous year in history; exports have spurted; and the boom persists.

In France, 1954 was the most prosperous post-war year.

In Italy, the national income increased four per cent and exports by ten per cent during 1954.

In Germany, a vast industrial and export expansion occurred during 1954, the exports of West Berlin increased, and new expansion was proposed for 1955.

In Switzerland, a boom persisted throughout 1954.

In Holland, shares on the stock exchange recently hit their highest level in over fifteen years.

Even Finland, Portugal, Pakistan and Japan shared in the upward surge of business.

The dire results predicted for the economies of our allies has not materialized in spite of the fact that Congress would not be "stampeded" into new tariff reductions.

Are we focusing attention in the right place? This raises a serious question. Assuming even that it is wise to expand international trade, has not the spotlight been turned upon the wrong problem? For such a view there is considerable authority. Mr. Bernard Baruch has pointed out:

"In all studies of this kind too much emphasis was placed on tariff reduction as if it held the solution to all international economic difficulties. One effect of this distorted emphasis is to give foreign countries an excuse for blaming their troubles on the United States, and by feeling sorry for themselves, to overlook what they must do on their own. . . ."

At present the lack of stable currencies is a far more serious obstacle to free trade than tariff barriers. These barriers take the form also of quotas and Empire preferences. As long as currencies continue to be manipulated, all trade is made more difficult. What trade does take place tends to be forced through government channels. If the energies and ingenuities of the multitude of individual traders all over the world are to be given a chance, as is so vital, the very first requirement is to have a free market and free currencies.

So too, Mr. Per Jacobsson of the Bank of International Settlements has pointed out:

"Convertibility means a free exchange market . . . a free exchange market means getting rid of exchange controls—the worst features of restraint on trade . . . now why do we have convertibility? You know the textbook reasons, that there is more world trade, more prosperity, and a raised standard of living and these reasons are very correct . . . I also believe that in all European countries we shall never get the savings and confidence in the currencies really before we get convertibility. So we will never be able to stand on our own legs before we get a sound currency system . . . It is my honest belief that the only way to stop aid (United States aid abroad) safely is to see that the countries apply monetary discipline and I know of no other way to get them to do it than to have convertible currency . . . convertibility is for me one of the great defenses for a free economy."

It is, therefore highly questionable whether all of the to-do regarding tariffs has not been based on mistaken premises:

First, the policy whereby the United States sets a "good" example with hopes that other nations will follow has failed.

Second, that the failure of the United States to lower tariffs in 1954 would supposedly have an injurious effect upon our allies. This has not happened. In fact, Western Europe was at a historic high point of prosperity in '62 when we followed the will-of-the-whisp of foreign relations and passed the Kennedy Round tariff cuts.

Third, that the problem of world economic inequalities is caused by American tariffs. This is not so, for our policies are the most liberal of any major nation in the world. Rather, the problem is one of self-defeating economic practices of other nations, supported by nonconvertibility of currencies.

It is my feeling that the American spotlight has been turned upon the lesser problem—tariffs. Yet in their frantic efforts to prove that the United States is the sinner, exporters, international bankers, their lawyers and other propagandists for more international trade have placed a very heavy emphasis upon tariffs. Hence, this Committee should explore the history and structure of the entire tariff problem, as well as the foreign trade problem as a whole.

Several basic developments on the trade front cannot be ignored without court-ign serious danger to our national welfare.

One basic fact is that we have in the past thirty-five years all but dismantled our tariff. From an average rate of slightly over 50% on dutiable items when the Trade Agreements Program was begun in 1934, the tariff has been cut to about 9%. This level will be yet further reduced under the two remaining years of the Kennedy Round.

At the same time about 38% of our total imports are free of duty. This means that the duty collected on all of our imports, free and dutiable, are only about 6%.

The effects of the dismantling of our tariff during the many years while world trade was disrupted by war and cold war activities did not make themselves felt until the war-torn countries had thoroughly recovered from the ravages of war, or during the past decade. Therefore we continued to lower our duties long after we should have stopped.

Now there is no longer any doubt that we cut too deeply in numerous instances while other countries, with some exceptions, either did not cut their tariffs comparably or nullified their cuts by nontariff devices, such as currency devaluation, border and turnover taxes, rebates on exports, and other devices.

The result is that we have, with few exceptions, an open market while we export to countries that have numerous controls to protect their own economies. We need only mention Japan and the Common Market; but there are others of lesser importance.

Actually it is not only the nontariff barriers of other countries that place us in a weak trading position. It is our inability to compete in our own market with low-cost imports and in foreign countries with third countries that can compete with us in those countries as readily as in our home market. Markets that we formerly enjoyed are falling more and more to our competitors. The latter are in a stronger competitive position to cope with the prevalent nontariff barriers of other countries than we are because they can undersell us in any event.

We do not have to look very far or to look for obscure clues to find the source of our competitive weakness. When we pay wages that are from $2\frac{1}{2}$ to 5 times as high or more as our competitors, while their productivity per man-hour or man-year approaches our own because of the adoption of modern technology, the mystery is dissolved. It is a matter of simple arithmetic and no amount of recourse to economic theory or sophisticated mystique can hide the plain truth.

The list of products in which we are running a trade deficit is too high to blind us to the facts. You may pick almost any consumer goods and make your own search; and you can go even to raw materials and semi-manufactured goods and minerals and also find additional examples.

We are in a critical state in our foreign competitive posture; and there is nothing reassuring on the horizon. Our Vietnam involvement has continued to obscure much of our difficulty, contrary to what the apologists claim, who ascribe our poor showing in trade to domestic prosperity and indifference to exporting. Had it not been for the Vietnam involvement we would have had to face the music before now. It acted as a buffer. Those who read this involvement as the source of our trade difficulty read backwards. If the water is liquidated we will find that as the anesthesia wears off the pain of our competitive reality will become unbearable. Our war activities have concealed the fundamental cause of our dismal trade showing.

The time has come when even the false trade statistic issued these many years by the Department of Commerce can no longer conceal the bare bones of our discomfiture. The facts are showing through the layers of concealment. They show that even under the misleading system of statistics foisted on the public our trade balance has shrunk staggeringly during the past several years. From an export "surplus" ranging from \$4 billion to \$7 billion a few years ago, we fell to a bare \$300 million in 1968 and then recovered to about a billion in 1969. Here was a shrinkage ranging from four to six billion dollars in a very few years.

If the statistics were published in a manner that would reflect our true competitive position. Foreign Aid, Food for Peace and highly subsidized agricultural shipments would not be shown as true exports. Eliminate these shipments and our balance falls by some \$2.5 billion a year. Then if we valued our imports on what they cost us laid down at our ports rather than at their value at the foreign point of shipment, another \$3 to \$3.5 billion would be subtracted from our "surplus". In other words, instead of a trade surplus we would have faced a deficit in the magnitude of \$5 or \$6 billion in 1969, as measured by competitive exports against c.i.f. imports (i.e. foreign value cost plus insurance and freight).

While the Department of Commerce now admits to a badly shrinking trade balance it continues to conceal the true state of our trade disaster. It still claims a trade surplus, in place of a gaping deficit. This posture obscures the true state of affairs and represents a disservice to those who seek a remedy for the perilous state of many of our industries in the face of import competition. It underpins an indefensible policy of further tariff cuts and further attempts to bargain for removal of nontariff barriers.

The fact is that if our exports of machinery and aircraft and chemicals are set to one side our trade in the remaining products makes a pitiful showing indeed. Yet, so far as employment is concerned, there are several millions more employed in the trade-deficit industries than in the trade-surplus sector.

Nor can it any longer be said that it is only the so-called 'labor-intensive' industries that are at a competitive disadvantage. Steel, automobiles, electronics, petroleum, office machines, etc., are not 'labor-intensive' in the usual sense of that term. They are 'capital-intensive', but we suffer some of our worst deficits in those very products.

This was one of those arguments on which the professors of economics feasted over the years. They were dead wrong. While trade deficits were experienced principally in glassware, pottery, fisheries, etc., it was said that it was only the 'labor-intensive' and 'inefficient' industries that could not compete with imports; and no real effort should be made to save them. This attitude underlay the notion of extending adjustment assistance to industries that were seriously injured by imports. The way to the graveyard was to be made easier for them.

The fact that 'labor-intensive' industries presumably offered relatively high employment to American workers made no impression. They were to be sacrificed if they could not survive on their own. Yet many of these ardent advocates of adjustment assistance wore the robes of pro-labor identification. The trouble was that while they may have loved labor, they loved the import-export interests and internationalism much more.

Not long ago I put into the Congressional Record the market penetration achieved by imports of both 'labor-intensive' products and 'capital-intensive' products. We are on the short end in the import-export balance in a number of large industries: automobiles, petroleum, steel, textiles; but also in numerous other industries that in the aggregate come to a large total: footwear, office machinery, including typewriters, calculating machines, etc., consumer electronic goods (radios, TV, recorders, record players), fisheries, hand tools, optical goods, fruits and vegetables (tomatoes, strawberries, melons, canned mushrooms), screws, nuts and bolts, cordage, cutlery, sewing machines, clocks and watches, mink, bicycles, bicycle parts, motor scooters, ladies' handbags, umbrella frames, toys, pianos, etc.

The list grows year after year. The market penetration goes deeper and deeper. With the tariff all but gone, there is nothing to stop the inroads other than insufficient production capacity abroad; and this capacity is growing very rapidly in some of the industrial countries.

Our own foreign investments are helping the expansion of foreign productive capacity. Our machinery and equipment has helped toward the vast technological improvement that has characterized foreign production in the past decade or two. We are reaping the backlash from much of this foreign investment, including the building of plants across the border in Mexico and in Korea and Taiwan.

A trade policy that does not take the great changes of the past two decades cited hereinto into account represents a ticket to commercial defeat for this country on the scale of a veritable debacle.

Our high production costs today have opened the entire American market to foreign imports. Just listen to the percentages of our market that imports took over last year:

	Percent
Steel	13
Automobiles	18
Woolens	26
Television sets ¹	30
Shoes	33
Sewing machines	40
Sweaters	42
Electric calculators	73
Table radios	80
Tape recorders	90
Portable radios	95

¹ The data for television sets is not current. There apparently will only be one U.S. manufacturer of color television sets produced domestically within one year.

At this point, I want to present the hard rock facts concerning the serious position the marble industry is in.

No other industry to my knowledge, has tried to live up to the pro-forma logic of the free trade advocate.

The American Marble Industry for years adopted a policy of buying marble blocks for processing in the U.S.

This gave true meaning to foreign free trade. We purchased products we did not have, to make available to consumers a choice of any marble selection from every part of the world.

This allowed our builders and designers to use in our fine buildings the proper colors and types of marble best suited the job to be done.

However, with our financial help in many cases, foreigners were able to extend their finishing capabilities, and starting in 1956 the importation of uncut marble blocks fell from a 150 million to practically nil while the fabricated marble, the bread and butter of industry, rose from 125 million dollars to over 1,400,000 dollars.

This turn of affairs has forced many U.S. producers to become in a sense, agents for foreign producers, killing off our domestic production and jobs.

Mr. Chairman, at this time I would like to submit for the record correspondence with Roy E. Mayes, Jr., president of the Carthage Marble Corp., plus a short report by the corporation.

CARTHAGE MARBLE CORP.,
Carthage, Mo., May 12, 1970.

Congressman JOHN H. DENT,
Rayburn Building, Washington, D.C.

DEAR CONGRESSMAN DENT: Again we are fighting against cheap foreign marble imports. The imports are steadily increasing as the revised graph shows, and the problem is now become acute.

Last year we sustained a loss of over \$113,000. A large part of this loss is due to a decrease in our total sales. This is in spite of the fact that there was more marble used last year. The American marble producers do the promoting, detailing, and estimating then the foreigners undercut us 20-25% on the finished piece.

Our plant people are working their hearts out to make us as efficient and productive as possible. Their attitude and perseverance is really outstanding though even now they are becoming discouraged. It is truly disheartening to witness the death of one of the few remaining artistic crafts remaining in this United States . . . especially knowing that our own government has and is continuing to contribute to this defeat.

In the meantime, our wheels are grinding to a stop. We plan to close our Batesville, Arkansas quarry and our Little Rock finishing plant as soon as they have completed their orders on hand. We are probably going to have to close our large No. 8 Plant at Carthage in the next few months unless things change considerably. This will result in the loss of between 125 to 150 jobs. Further reductions will probably be necessary later.

Vermont Marble Company has recently been forced to close their San Francisco and Dallas plants. I have just spoken to Mr. Locarni and his shop is practically out of work. So, you can see that it is not necessarily just Carthage that is having problems. I see in the Wall Street Journal article that the Textile and Footwear Industries may possibly get some relief. Is it possible that we would be included in a similar or some other protective tariff bill?

It is a real tragedy to me to let our fine people go, especially when our area's unemployment is so high. We are having people apply for jobs daily from points as far away as thirty miles from our plant. Some of our fellows drive that distance now.

I was shocked to read the Wall Street Journal article recently which can do nothing but compound the situation for the American marble producers. I have attached the article regarding Montedison, a division of which is Italy's largest marble producer. You can now see that one of our biggest competitors is becoming nationalized. We believe that similar situations exist for other Italian marble producers. *We cannot compete with the cheap Italian prices and a government owned company!!*

I am enclosing other information that I hope will bring you up to date. We are hoping to testify before the House Ways and Means Committee.

As you know, we have been corresponding with legislators and testifying before committees for over four years about our problem. We have a new study to present in about one week, which is being prepared by Tyson, Belzer and Associates, Inc., a Washington research firm. This should further substantiate the damage in dollars and cents, and we will certainly forward a copy to you as soon as it is available.

I have the feeling that we are getting nowhere at all and that perhaps we are really too small to attract any attention. Would you advise us to continue our efforts in hope of getting some relief, or would you be kind enough to suggest perhaps a different attack? We have always appreciated your honest forthright approach, and we certainly look forward to hearing from you.

Sincerely,

ROY E. MAYES, Jr., *President.*

JUNE 4, 1970.

MR. ROY MAYES, JR.,
President, Carthage Marble Corp., Carthage, Mo.

Dear Roy: I very much appreciate your letter and the enclosures concerning the marble importation problem.

I plan to make a presentation to Congress within the next week or ten days, and will send you a copy of my remarks at that time.

While greater attention is paid to shoes, textiles, glass, etc. it is the smaller industries such as the marble industry, that really suffers. I have known for a long time, and have preached a much, that the seriousness of the import problem was in the area of employment of the smaller industries.

I am appearing before the House Ways and Means Committee and will cover much of the material in your letter and enclosures, because most of the arguments contained therein can be used for 90% of the American Industries at this moment.

I agree with you that if we do not do something soon we will be headed for industrial, as well as political oblivion. What they do not know is that when you close down a plant and lose 125 to 150 jobs in a small industry it means extinction, because there is no history of a reopening of this type of industry once it is closed down.

Recently, a glass plant in my territory closed and the area lost 650 jobs. For years I had protested glass imports, but no one listened and now it is too late for the little plant in my district. I don't want that to happen to the marble industry, and am praying people will listen this time.

Roy, the best thing for you to do is have all the marble people write their Congressmen and Senators and express their concern. If enough fuss is raised maybe we can get some beneficial amendments on the floor. The more people we can get to listen and be made aware of this critical situation, the better our chances are. You know you have my interest and my vote.

With kindest regards, I am

Sincerely yours,

JOHN H. DENT, *Member of Congress.*

APRIL 29, 1970.

CARTHAGE MARBLE CORP.

INTER-OFFICE MEMO

From: CHARLES T. YARBROUGH, *Vice President.*
To: ROY E. MAYES, JR., *President.*
Subject: Foreign imports.

The situation is becoming chaotic. Here are some late figures that are alarming me. During the period January, 1961 to August, 1969, we bid approximately \$4,348,423.00 of marble work on which we were undercut roughly \$791,593.00 by cheaper foreign prices.

Because imports were substantially cutting into our market and since this trend was rapidly increasing, we were forced to bid on foreign units. Effective August, 1969 since we were no longer competitive, we stopped bidding on domestic unit prices on many jobs and started requesting quotes from foreign firms.

During the period August, 1969 to April, 1970, we have bid \$1,144,249.00 of imported jobs. When you compare this with \$4,348,423.00 for the previous eight years you can see the skyrocketing trend.

Attached is a list by job name for years 1961 through 1969 and Mr. Dell'Amico's recap for the period August, 1969 through April, 1970.

JOBS LOST TO FOREIGN FABRICATORS. JANUARY 1961 TO AUGUST 1969

Job	Our bid	Foreign bid	Percent under us
Bank of San Angelo, Tex.....	\$267, 279	\$225, 000	16
Sheldon Memorial Art Center, Lincoln, Nebr.....	1, 100, 000	850, 000	23
Memphis City Hall, Memphis, Tenn.....	237, 000	190, 000	20
Lassen Terrace Plaza Building, Wichita, Kans.....	128, 000	89, 500	30
First National Bank, Dallas, Tex.....	1, 100, 000	850, 000	23
Howard Mausoleum, Denver, Colo.....	52, 000	41, 200	21
National Shrine Immaculate Co., Washington, D.C.....	575, 000	452, 000	22
Bank and trust, New Iberia, La.....	21, 000	15, 000	29
Bank, Raceland, La.....	20, 000	14, 000	30
Mausoleum of Lakewood Cemetery, Minneapolis, Minn.....	241, 385	196, 500	19
Texas A. & M. Library Building College Station, Tex.....	37, 000	27, 000	27
San Angelo National Bank, San Angelo, Tex.....	250, 000	245, 000	2
High school phases 1 and 2, Lubbock, Tex.....	3, 900	3, 000	23
American Savings & Loan, Dallas, Tex.....	1, 000	930	7
Memorial, Fort Worth, Tex.....	2, 100	1, 500	29
Savings and loan, Midland, Tex.....	19, 500	17, 000	13
Mausoleum, Amarillo, Tex.....	17, 250	13, 000	25
Bank, Waxahachie, Tex.....	35, 000	29, 000	17
Savings and loan, Dallas, Tex.....	3, 800	3, 200	16
Noel Page Building, Dallas, Tex.....	17, 900	16, 300	9
County courthouse, Victoria, Tex.....	(1)	102, 000	
Teaching hospital, San Antonio, Tex.....	16, 000	15, 000	6
School, San Antonio, Tex.....	2, 000	1, 700	15
Vaughn Building, Midland, Tex.....	4, 600	4, 200	9
Methodist Hospital, Houston, Tex.....	65, 000	50, 000	23
Bank building, Monahans, Tex.....	28, 000	22, 000	22
Elemjem Art Center.....	103, 709	82, 800	18
Total.....	4, 348, 423	3, 556, 830	18. 2

¹ Slab price.² Average.

TOTAL BIDS ON PROSPECTIVE JOBS

Period	Number of jobs	Total amount of jobsite	U.S. tons	Metric tons
August-December 1969.....	12	\$597, 857	1, 259. 2	1, 142. 4
January-April 1970.....	8	546, 392	1, 307. 8	1, 186. 5
Total.....	120	1, 144, 249	2, 567. 0	2, 328. 9

¹ Names of individual jobs available if required.² We did not figure a price for domestic fabrication as we could not be initially competitive.

Mr. Chairman, the importance of this latest report is the statistical data on non-rubber footwear.

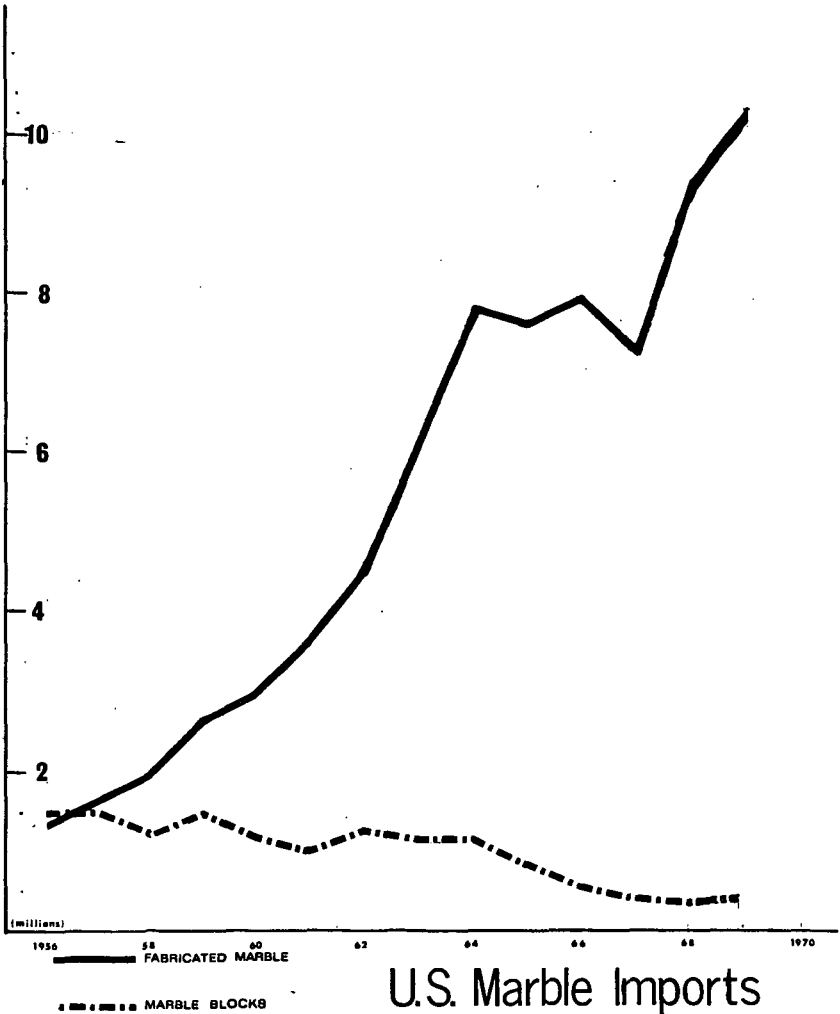
SHOES

First showing the increased importation from 1969 to 1970 of 19% or a total of 233,670,000 pairs. This is better than one pair of shoes per person in the U.S. Many of the buyers of the lowest priced imports are in the low-income brackets, buying no more than one pair of shoes per year. This group then for all intents and purposes is no longer available as customers for U.S. shoes. Another serious part of this presentation, is from census data detailing F.O.B. average value per pair against estimated retail sales price. You will note that foreign shoes purchased for \$3.87 turn up on the U.S. market shelves selling for \$15.48 a pair. A \$56 Taiwan shoe will sell for \$2.24 and a Japanese \$.87 shoe will sell for \$3.48. A reading of the attached data will show two good reasons for U.S. loss of shoe production.

A. The cost of producing foreign shoes hardly meets the fringe benefit costs to U.S. manufacturers forgetting altogether the wage costs.

B. The percentage and dollar mark-up for distributors, wholesalers, and retailers, make it more profitable to push foreign shoes.

While the argument of the doctrinaire free-trader begs for the right of the consumer to buy cheaper goods, they fail to equate our selling prices with higher wages demanded by the same consumers on the extremely high profits made



U.S. Marble Imports

CHART 2

by foreign product distribution and sales. While the consumer may save a few dollars on his foreign product purchases, the end payments for unemployment, added federal subsidies, and loss of tax income to local, state, and federal governments, from excessive penetration of our domestic market creates a doubt as to which is cheaper for the consumer in the long run.

IMPORTS—FIRST FOUR MONTHS 1970

In April 23, 137,873 pairs of non-rubber footwear, valued at \$44,972,072, were imported into the U.S. market, bringing the total imports for the first four months of 1970 to 91,828,200 pairs. A simple multiplication of 3 will give you a fair idea of where imports are headed this year. Our more refined estimate for 1970 imports is 233,670,000 pairs which would represent a 19% increase over 1969. In 1968 imports represented 21% of the total supply (the addition of domestic production and imports); in 1969, 25%; and in 1970, Imports could represent 29% of the total U.S. market.

DOLLAR VALUES OF IMPORTS (F.O.B. AND ESTIMATED RETAIL)

	F.o.b. average value per pair	Estimated retail ¹ value per pair
Leather imports, April 1970:		
Men's and boys'.....	\$3.87	\$15.48
Women's and misses'.....	2.72	10.88
Infant's and children's.....	1.25	5.00
1969 imports, selected foreign sources:		
Spain.....	3.55	14.20
Italy.....	3.23	12.92
Japan.....	.87	3.48
Taiwan.....	.56	2.24

¹ On the average, retail prices of imports have been running 4 or more times the foreign f.o.b. values reported by Census

TOTAL IMPORTS OF OVER-THE-FOOT FOOTWEAR

Type of footwear	April 1970 (in thou- sands pairs)	Percent change, 1970/1969	4 months, 1970			Percent Change, 1970/1969	
			Thousand pairs	Value (in thousands)	Average value per pair	Pairs	Dollar value
Leather and vinyl, total.....	22,282.5	-15.7	88,796.1	\$178,449.0	\$2.01	+27.5	+37.0
Leather excluding slippers.....	12,639.2	-18.5	48,319.1	148,106.9	3.07	+28.3	+37.0
Men's, youths', boys'.....	3,241.3	-19.1	11,805.2	47,295.1	4.01	+11.5	+21.9
Women's, misses'.....	8,310.3	-19.1	32,396.3	93,497.6	2.89	+35.6	+48.3
Children's, infants'.....	859.1	-10.3	3,017.6	4,017.2	1.33	+27.1	+15.3
Moccasins.....	37.4	-52.0	232.2	199.0	.86	+7.3	-26.9
Other leather (including work and athletic).....	191.1	+1.0	867.8	3,098.0	3.57	+44.0	+23.4
Slippers.....	13.9	+1.5	51.9	127.8	2.46	-14.9	-1.0
Vinyl-supported uppers.....	9,629.4	-11.8	40,425.1	30,214.3	.75	+26.7	+37.4
Men's and boys'.....	1,431.8	-14.2	5,132.7	5,531.3	1.08	+75.1	+76.4
Women's and misses'.....	7,222.6	-10.7	31,316.9	22,192.2	.71	+22.8	+32.0
Children's and infants'.....	821.0	-22.0	3,370.1	2,121.3	.63	+17.7	+20.1
Soft soles.....	154.0	+33.8	605.4	369.5	.61	(9)	+34.8
Other nonrubber types, total.....	855.3	+22.5	3,032.1	3,876.1	1.28	+52.9	+99.6
Wood.....	391.7	+119.1	1,126.2	2,718.2	2.41	+260.5	+270.4
Fabric uppers.....	394.2	-11.7	1,620.7	818.9	.51	+14.1	-13.7
Other, not elsewhere specified.....	69.4	-4.8	285.2	339.0	1.19	+13.4	+30.8
Nonrubber footwear, total.....	23,137.8	-14.7	91,828.2	182,325.1	1.99	+28.2	+37.9
Rubber-soled fabric uppers.....	4,246.1	-21.4	15,554.3	11,845.1	.76	+2.6	+11.6
Grand total, all types.....	27,383.9	-15.8	107,382.5	194,170.2	1.81	+23.7	+36.0

¹ Not classified.

Note: Details may not add up due to rounding. Figures do not include imports of waterproof rubber footwear, zories and slipper socks. Rubber-soled fabric upper footwear includes non-American selling price types.

Source: American Footwear Manufacturers Association estimates from census raw data.

Mr. Chairman, at this time, I would like to submit a fact sheet on the textile-apparel footwear trade bill, plus three excerpts from the Congressional record regarding our trade policy in general.

FACT SHEET ON TEXTILE-APPAREL-FOOTWEAR TRADE BILL

Imports displace jobs

Ten years of rising textile-apparel imports, reaching a level of 3.6 billion square yards in 1969, equal a quarter of a million American jobs according to research analyses. In the first months of 1970 imports continued to rise to an annual rate of nearly 4 billion yards.

Why legislation is needed

In addition to the 250,000 jobs already absorbed by textile imports, actual employment in the textile-apparel industry fell off 65,000 during the past 15 months. No effective means exist for controlling the situation.

Present law and the General Agreement on Tariffs and Trade (GATT) have proved ineffective in preventing large-employment industries from being victimized by market penetration tactics of foreign producers. President Nixon termed textiles a "special case" in February of 1969 and the United States sought an agreement among foreign nations to curb their shipments to this country in the best interest of international economic and diplomatic relations.

These efforts were to no avail. They met with resistance and delay, primarily from Japan. World's leading textile exporter, Japan funnels 25 percent of her direct shipments to the United States (substantial indirect shipments are made by Japan via Korea, Taiwan and other Asiatic nations).

After months of discussions and more than 100 meetings, negotiating sessions and trips by officials at many levels to many places, a Japanese aide-memoire received by the State Department in March, 1970, was totally unresponsive to U.S. proposals. Secretary of Commerce Stans termed it a "negative reply" and a "major disappointment".

As the only alternative, Congress has now moved to consider means of assuring that imports will be kept at reasonable levels so as to halt further large-scale transfers of production and jobs to foreign lands.

What the bill proposes

The legislation places emphasis on encouraging negotiated agreements, by imposing specific import limitations only on those nations which do not enter into negotiated agreements with the United States. Present agreements and any negotiated before and after the bill is passed will be honored.

Only those countries which refuse to negotiate agreements would be subject to specific limitations on their shipments to the United States of textiles, apparel articles and footwear. These limitations would be set, by category, during 1970 to equal the average amounts that entered the United States in 1967-68; after 1970 the permissible level of imports would be adjusted up or down annually to reflect increases or decreases in domestic consumption.

The bill also includes new escape clause and adjustment assistance provisions which make it easier for other injured industries and employees to achieve more effective relief than now available.

EMPLOYMENT DECLINE

One reason for the current effort to enact the new law is alarm over the rapid drop in employment. Textile jobs fell from 1,000,000 in January, 1969, to 964,000 in March, 1970. Apparel industry employment slumped during the same period from 1,424,000 to 1,395,000—a total loss of 65,000 textile-apparel jobs since the beginning of 1969.

While textile imports soared from 1959 to 1969, textile employment failed to keep pace with the growth of all American manufacturing industries. Non-agricultural employment expanded 31.5 percent, eight times faster than textile jobs.

Successive high marks

During the 1959-69 period, the dollar value of textile-apparel imports rose from \$744 million to \$2.1 billion. Volume-wise (yarn, fabrics and apparel articles of cotton, wool and man-made fibers converted to equivalent square yards), imports increased from 976 million yards in 1959—then an all-time record—to 3.6 billion in 1969 and a current annual rate of close to 4 billion.

Most of the increase originated in Asia and consists of products manufactured from man-made fibers. These rose from 151 million yards in 1959 to 1.7 billion in 1969, a jump of 1080 percent. In terms of dollars, the increase was from \$61.2 million to \$695 million. In 1969, the import volume of man-made fiber products exceeded cotton textiles for the first time in history.

Wool textile imports over the 10-year period doubled in both value and volume, from \$190 million to \$406 million, and from 90 million yards to 170 million. One of every four yards of wool products currently sold in the United States is of foreign origin.

Trade deficit grows

The United States has not had a favorable textile trade balance since 1957. In that year textile imports started to exceed the amounts of textiles and apparel exported from the United States to other countries. Since 1959, the deficit has grown seven-fold to a record \$1.37 billion in 1969. More than one-third of the deficit (\$525 million) consists of textile-apparel imports from Japan alone.

Wage-cost contrasts

Items made abroad at wages far below the legal U.S. minimum give foreign producers cost advantages that cannot be overcome even by superior American efficiency. Hourly earnings of American textile employees, exclusive of fringe benefits, average \$2.43. Hourly rates average 45 cents in Japan; 11 cents in Korea; 11 cents in Taiwan; 25 cents in Hong Kong. (Japan sends fiber, yarn and cloth to such countries as Korea, Taiwan and Hong Kong to be made into apparel and then shipped to the United States market.)

Wage gap widens

The wage disparity between the United States and Japan is widening. In hourly earnings, the gap in 1960 was \$1.44; by 1969 it had broadened to \$1.98, giving overwhelming competitive odds to the Asiatic textile nations.

Accepted in principle

The United States, Japan and 29 other textile nations currently are parties to the GATT Long-Term Arrangement for Trade in Cotton Textiles (LTA), negotiated under the leadership of President Kennedy. This agreement established the principle, accepted by Japan and all others, of maintaining an orderly international trade in cotton textiles. Because the LTA was not geared to dramatic changes that ensued in fiber consumption, it became outmoded. It was during the LTA period that imports of man-made fiber products surged more than 1000 percent. The textile-apparel-footwear trade bill corrects the LTA's deficiencies by covering textiles and apparel of all kinds of man-made fibers and wool as well as cotton.

Plant expansion down

In the past, when government actions created confidence, the textile industry invested heavily in the future. For example, outlays for new plant and equipment rose from \$500 million in 1962, when the LTA became effective, to \$820 million in 1966, according to records of the Securities and Exchange Commission and Department of Commerce. Since that time, with imports rising at a runaway rate, capital investment has declined to \$630 million.

Price performance

Opponents of import controls argue that consumers will be denied low-priced foreign products. This is disproved by the fact that cotton textile imports doubled and price levels remained low during the LTA control period. Wholesale prices of all textile products have increased just 1 percent above the 1957-59 average despite a 58 percent rise in textile wages. The same period saw a 13 percent increase in the all-industrial commodities index of the Bureau of Labor Statistics.

By contrast, prices of silk products have leaped 69 percent since 1957-59. Japan has virtually total control over silk textile production. This would illustrate that when control of a major part of a product line is held by foreign interests, provisions of U.S. law for the protection of consumers and employees—antitrust regulations, prohibitions against conspiracy to fix prices, wage and hour requirements, and the like—do not prevail.

Economic cornerstone

One of every nine U.S. manufacturing jobs is in textiles or apparel. The textile-apparel industry itself employs more than 2 million people and meets a \$10 billion annual payroll. It also creates work for some 2 million more in enterprises that supply materials and services. Each year the industry buys \$4 billion worth of fibers, including all domestically produced wool and two-thirds of the output from 300,000 cotton farms. It spends \$600 million for chemicals and dyestuffs; \$420 million for power and fuel; \$240 million for packaging products; \$100 million for trucking services. It generates more than \$2.5 billion in federal, state and local government tax revenues.

Operations in every state

With plants in all 50 states, the textile-apparel industry ranks as the nation's largest rural manufacturing employer. (It is also the largest employer in New York City, owing to that city's 224,000 apparel workers.) The nature of its operations enables it to provide work for large numbers of men and women at all levels of skill. One of every four jobs in Appalachia is in textiles, apparel or footwear. Women comprise 45 percent of the textile labor force and 80 percent of apparel workers, compared with an all-manufacturing average of 27 percent.

When government programs are being pushed to eradicate poverty by creating job opportunities, the social and economic implications of a vigorous large-employment industry such as the textile-apparel complex become apparent. More jobs would ease the problem of rural-to-urban movement, increase opportunities for poverty victims in city areas, and open the way for minorities to gain their first industrial experience.

Since 1960 the textile industry's employment of Negroes has advanced four times faster than the national average for all manufacturing to a current level of 12 percent, compared with an all-industry average of 10 percent.

Job potentials

The United States ranks near the top among nations of the world depending on manufacturing activity for employment of its labor force. According to International Labor Organization data, 40 percent of the total U.S. labor force is employed by industry, in contrast with a world average of 19 percent, 28 percent in Japan, and 38 percent in Europe. To provide sufficient job opportunities for the great numbers of people involved, an increasingly wide range of manufacturing operations—not less—will be essential. The textile-apparel industry can fulfill its unique potential in this regard only if the important problem is promptly resolved.

Raw vs. manufactured products

In light of future needs for more industry employment, it is more important to consider the nature of trade deficits than their size. Japan, for example, bought \$3.5 billion worth of products from the United States in 1969; the United States bought \$4.9 billion worth from Japan. The vast majority of Japan's imports consisted of raw materials with minimum labor value. Japan buys non-competitive products and transforms them into goods of high labor content.

What Japan sells in America is competitive manufactured items that displace U.S. production and jobs. They make heaviest impact on textile mills, apparel plants and shoe factories whose payrolls provide economic vitality for hundreds of American communities.

Cartel practices

Supported by special financing and zaibatsu (cartel) practices that would be illegal if engaged in by American manufacturers, textile producers of Japan pursue programs of subsidized "penetration pricing" to seize segments of the American market. They have no obligation of legal or moral responsibility toward employees, consumers or communities of the United States.

Long-range solution

The textile-apparel-footwear trade bill is aimed at no particular nation. It does not require that imports be shut off or that fixed limits be imposed.

The bill seeks only reasonable restraints on textile, apparel and footwear imports so that foreign producers and the domestic industries alike may have equitable access to the United States market.

The import controls would be made flexible, to give foreign nations the opportunity to compete for larger portions of the American home market as it is further developed by the ingenuity and promotional efforts of United States industries.

The bill provides a framework for a long-range solution of the years-old import problem of the textile, apparel and footwear industries, as well as the deteriorating United States balance of trade. By leading to more evenly distributed international commerce, its effects would accrue to the long-term best interests of all nations.

[From the Congressional Record, Mar. 10, 1970]

Mr. DENT. For many years the textile, glass, and coal industries have led the fight for a reasonable approach to the demand for all-out free trade between nations.

In the early days, proponents of free trade used our own free trade—barrier conditions between the States. Many argued that this free trade between States was the real basis for our phenomenal growth both industrially and agriculturally.

This could have been true since we have a common money, common laws on labor and industry, common courts, and above all a set of laws that are at least a restraint on monopoly, marketing, price fixing, profiteering, franchising, and

other protectionist statutes such as antitrust or cartel-type agreement that eliminate competition.

Much water has flowed over the dam since the free trade movement became this country's stated goal in international relations.

While we can point to figures with pride in our years of world supremacy in trade we are now much like the old fighter who has had many winning bouts but ends up punch drunk and unable to comprehend that he is living in the past.

He jumps every time a bell rings and the "friendly" people around him applaud while he goes on shadowboxing.

We, too, as a nation appear to be punch drunk on trade, we jump to attend every conference, we get applauded but come away with agreements that create greater losses in jobs, industry, services, and growth for our future needs.

The time finally must come when we must stop kidding ourselves and our trading partners.

First of all, Mr. Speaker, there is no free trade policy between our 50 States. We have restrictions on imports from other States; in fact, we restrict interstate trade in many instances while we allow foreign imports to flow from State to State with no barriers on the roadway.

A simple illustration is the case of cigarettes and liquor.

Most States allow a tourist coming back to the United States to bring back a carton of cigarettes and a gallon of liquor—reduced to a quart by President Kennedy from some areas—but will confiscate your car, put you in jail, and assess a stiff fine if you get caught bringing these items in from other States.

Try to get around paying sales taxes for items purchased in one State and transported into another.

Up until recently, Americans could not receive relief or welfare unless they lived in a State for a specified period of time.

Our system worked because we had both the free movement of goods and the free movement of people. There are many restrictions today on both.

The glass industry is no exception; all labor intensified industries are vulnerable and will, if not already hit, be hit by imports.

It cannot be otherwise. We promote foreign products as the official position of our State Department. Never in the history of the world have so few taken so much from so many in the name of peace, friendship, and misguided ideas of the U.S. economy.

Ask the 50,000 workers somewhere, in some home who are unemployed because 50,000 Mexicans were removed from the unemployment rolls by our State Department promotion to move industries from this side of the Rio Grande to the other side.

Let us take a look at the facts:

Just 3 years ago the State Department and Mexican officials worked out a hush-hush agreement, known only in the area of the activity for a long time. It would not have succeeded if labor had knowledge prior to the settlement of a sizable number of industries in the so-called Pronef territory.

This agreement called for U.S. concessions to U.S. manufacturers and processors allowing the exporting from the United States of components to a 12-mile-wide strip the entire length of the Rio Grande and including all of Baja California for assembly and final manufacturing free of tariff restitutions, with certain tax allowances given by the Mexicans.

The Journal of Commerce calls this "the biggest bargain ever negotiated between the two countries."

Let us examine this bargain and then decide who got the "Mexican hayride."

We lost 150 U.S. plants now situated in Mexico.

We created 50,000 Mexican jobs.

We lost 50,000 U.S. jobs.

We must export all products from Mexico.

No products produced in Pronef can be shipped into other sections of Mexico tax or tariff free.

Our country charges a specially designed border tax upon added value, based upon low-waged Mexican workers added value.

Millions of U.S. dollars flow into Mexico because of added curiosity and tourism.

For awhile Mexican labor crossed over into the United States to spend 40 to 60 percent of their earnings because of the lack of facilities and goods in Pronef. This is fast disappearing and even U.S. service industries are following the U.S. golden eagle across the river.

Soon the area will be completely supplied with all its needs to keep every U.S. dollar that skips across the river.

The electronic, garment and clothing, textile industries, and food processors are the vanguard of passengers on the "Mexican hayride."

Thanks to our State Department and mistaken U.S. border city officials, there will be plenty of room for many more of our light industries.

We know that the agriculture workers in the Rio Grande Valley have felt the sting of unemployment because of the "green card" imported workers who work for much less. This is true in the grape vineyards of California and is the main reason for the disastrous long strike in the grape areas.

My committee has been authorized to make a study for Pronef. We will do so. What we report may or may not change the course laid out by the State Department.

Whatever else it may do one thing is sure, we will bring back a factual report and let Congress make the decisions.

I said before that the warning of President Roosevelt has been completely ignored. He admonished against "tying U.S. trade to the will of the whip of foreign diplomacy."

We have to learn the hard way. We are not satisfied with the lessons of history.

Foreign imports force automation in the industrial complex before the need for products can supply the market with consumption. Imports reduce and lower the quality of U.S. products. The foreign producer can produce a better product with a much lower cost. We cannot compete on products requiring the same man-hours for production. We are therefore forced to increase production and this requires more automation with a greater loss of quality.

This is proven by the almost complete take-over of the U.S. transistor market by Japan. This is true of upright pianos, a relatively new victim to our free trade policy. In 1900, we imported 4,200 pianos, Japan then jumped into the U.S. dumping market and in 1969 we imported 29,000 pianos—equal to our entire consumption. Japan exported 94 percent of this total to the United States. Recently the President gave a 2-percent increase in tariff to the piano industry, as well as a promise of financial aid—out of the taxpayer's pocket—to both labor and industry.

In my humble opinion, this award was a concession to political power, not economic reasoning. It can not be anything else; it will not have the piano industry that must pay at least the minimum wage of \$1.60 an hour for 40 hours and \$2.40 for all over 40 hours as against Japanese wages ranging from 18 to 63 cents an hour and no overtime pay. In the same breath, the President denied tariff relief to the flat glass industry, but did promise to pay the workers for not producing glass, and damages to the industry no longer able to produce glass in competition with Belgium, Russia, and others.

Mr. Speaker, I was young in politics when President Roosevelt was raked over the coals by the critics because he paid American farmers for not growing crops and for what was called "plowing under pigs."

What is the difference between that and paying both industry and labor for not producing goods that have a market and are consumer goods that we must have to exist. No other nation will allow this to happen, nor should they. Every nation must look unto itself for its welfare, just as all human being went. A helping hand is one thing, to help a man help himself is one thing, but to starve your family is not the way of life for either nation or human.

To share is one thing, to give what you have in excess is one thing, but to take away a man's opportunity to the self respect of a job; to give him relief without working is a most serious and dangerous thing to do.

I believe every industry, every service, every product, must be considered as an individual case or problem in international trade.

The rules must not allow the employment of one worker at the expense of the unemployment of another. Dollar balances of trade do not measure the true values of a trade policy. The only thing that counts is whether or not a nation can afford to use trade as a tool of diplomacy without regard to the exact sciences of the economics of employment and consumption, taxation, and services.

Nothing takes the place of a job, from the bottom to the top rung of the ladder, than we climb in our few years on earth. We created departments of Government so that each in its sphere of actuality and interest would promote the well being of our Nation.

The Labor Department, Commerce, HEW, Defense, State, and the many commissions and bureaus of Government are supposed to make decisions in the areas designated by the Congress or the Constitution.

What is happening is another picture. The State Department completely and without interference has taken over the Commerce Department functions on international trade, it sets tariffs, gives quotas, bankrupts one industry and makes others prosperous, takes a steelworker's job so that a cottonworker can work. The State Department runs our wars, our money policies, and in fact pulls most of the strings that makes the puppets move and perform.

Let us look at the recent action by the State Department in demanding that the Metro Authority in the District of Columbia get rid of its buy American policy. I quote from the Washington Post :

STATE DEPARTMENT HITS METRO ON BUYING

(BY JACK EISEN)

Washington Metro subway system, already caught in a crossfire of federal policies on freeways and racial hiring practices, was plunged yesterday into a new controversy involving U.S. foreign economic policy.

The State Department asked the directors of the Washington Metropolitan Area Transit Authority to drop the agency's "buy American" policy and base its millions of dollars of purchases "on purely commercial considerations."

Domestic purchasing restrictions, wrote Philip H. Tresize, assistant secretary for economic affairs, would "seriously handicap our efforts to eliminate trade barriers to American exports."

He asserted that measures such as that adopted by the Metro board in 1968 are often cited during international negotiations as "indicative of a return to protectionism on the part of the United States."

"This would be particularly true in the case of (Metro)," Tresize declared, "since its location in the nation's capital would attract special attention."

While letters from Tresize and a subordinate were being distributed, the board members had before them a recommendation from Metro's general manager urging that the present domestic buying restriction be retained.

Up to now, Metro construction contracts have provided that American materials must be used unless foreign-made items could be bought for 15 per cent less.

"Such a (6 per cent) differential," Graham wrote, "will give a competitive advantage to domestic suppliers but should not eliminate foreign competition in most situations."

The State Department letters and Graham's recommendation touched off a short but sharp debate, ending with a decision to vote on the issue next month.

Director Herbert E. Harris II, a Democratic Fairfax County Supervisor to whom one of the State Department letters was addressed, said he agreed firmly with President Nixon that trade barriers should be dropped.

"I'd like to get the cheapest price I can wherever I can get it," observed Alexandria City Councilman Nicholas A. Colasanto, an alternate director.

Mr. DENT. George Washington, the Father of our County, counseled against foreign entanglements. This meant above all, to keep from becoming dependent upon other nations for anything we could produce for ourselves. Is it not strange that on the eve of his birthday, a Department of State official dealt the taxpayer of America a crowning insult. I refer, Mr. Speaker, to the article, appearing in the Washington Post, Friday, February 21, which reports Assistant Secretary of State for Economic Affairs, Philip H. Tresize, as saying that the Washington Metro subway system's buy-America policy would seriously handicap the Department of State's effort to eliminate trade barriers to American exports. He also asserted that measures such as those adopted by the Metro board are often cited during international negotiations as "indicative of a return to protectionism on the part of the United States." And, further, Mr. Tresize states that since the Metro is located in the Nation's Capital a buy-America policy would attract special attention. Mr. Speaker, I asked that the entire article from the Washington Post be published in the CONGRESSIONAL RECORD so that the taxpayers of America will know that there is now a new and concerted effort on the part of certain officials of the State Department to spend their money outside the United States.

At a time, Mr. Speaker, when this administration is leading the Nation into increasing unemployment, economic hardship for the business community, and

added tax burdens for the citizens, I am appalled that there is a State Department official who is so naive as to believe that American exports are dependent upon the elimination of a buy-America policy.

It is also worth noting that the Washington Metro subway systems is currently involved in negotiations to insure democratic employment practices for minority groups. I would like to know how the State Department proposes to insure that when the taxpayers' dollar is spent abroad that fair and equitable employment policies will be followed and that the right of minority groups will be met.

Mr. Speaker, I suggest that Mr. Tresize and the Department of State could best serve this Nation by collecting some of the millions of dollars which they have too often half-wittedly squandered throughout the world.

We are just starting upon a program of cleaning up our environment. This will cost billions of dollars. If we do not challenge the State Department's policies on foreign purchases, let us forget the U.S. industries engaged in producing the equipment for purifying our air and water, our streams and cities.

At this time I want to announce that next week I again intend to air figures, some old, some new, on the impact of imports on our welfare.

Mr. Speaker, a recent news story called attention to the preposterous lawsuit against the Westinghouse Corp. by the Department of Justice, an antitrust suit charging Westinghouse with restraint of international trade because of a restrictive covenant in a licensing agreement between Westinghouse and two Mitsubishi companies in Japan. It appears Westinghouse granted the Mitsubishi Co. a license to manufacture under certain Westinghouse patents and designs certain equipment such as heavy road equipment and other items. The suit stems from the restrictive clause in the agreement whereby Westinghouse forbids the sale in the U.S. markets products manufactured under this agreement. Westinghouse properly argues that this would open up its domestic market to like products produced in Japan at the lowest possible wages, thereby destroying the ability of Westinghouse to sell in the United States, causing thousands of American jobs to go down the drain.

Mr. Speaker, this is not an isolated situation. Many American companies protect their markets, both here and abroad, with limited licensing agreements. In fact, many Americans are manufacturing under licenses and agreements arrived at with foreign countries and foreign country corporations prohibit the export to the country of the parent companies.

Mr. Speaker, nothing in this lawsuit will open up the foreign countries to American-made products. At this point I might say that if Westinghouse is guilty of this charge, then what is the State Department guilty of when they made an agreement with the Republic of Mexico in which they allow American industry to move across the Rio Grande River in what is known as the Pronaf Territory, an area 11 miles wide, the entire length of the Rio Grande, and all of the Baja area.

One of the restrictive covenants in that particular agreement is that none of the products which are manufactured in Mexico by American companies using Mexican labor at \$1.70 to \$3 a day is allowed to be sold in the Republic of Mexico. All of it must be returned to the United States for sale in the American market.

Mr. Speaker, if this suit is won by the American Government, I can predict to this Congress of the United States that within a 3-year period 40 percent of all the workers at Westinghouse will be out on the streets, they will be walking the streets unemployed. If it prevails and the favored-nations clause, as well as current agreements, is put into effect by other countries getting the same right, we will have the greatest threat ever posed to the American workingman and the American free enterprise system.

The question then follows as to where, if these favored-nation clauses are invoked by other countries, we will be able to produce the consumer goods in this country when we are competing in an area of wage payments where in most instances around the world the fringe benefit charges against American producers are greater than the wages and fringe benefits combined in any competing country anywhere in the world.

The fringe benefits in the steel industry alone under the contract with the steel workers are \$1.60 an hour. The top wages paid in any steel-producing country that I have discovered on my trips with my committee looking at the impact of imports from foreign countries is \$1.25 an hour.

We have another situation in this country that ought to awaken every Member of the Congress to the danger that we are in. For instance, in Japan

once an employer employs an employee he is not permitted to discharge that employee. He is not permitted to lay that employee off from his work. Therefore, they have a permanent job situation. We in America have no such protection for the American workers, and they end up on either the relief rolls, extended manpower training programs, or under the new family maintenance bill that was passed by this House recently and is now over in the Senate.

I do not know whether we are just plain stupid, whether we are blind to the facts, or whether we just do not care.

Mr. Speaker, I predict, as the gentleman from Illinois, who is on his feet at this moment, said before our committee the other day during a committee hearing in which we had the Secretary of Labor as a witness, that he definitely believed that the unemployment would reach five percent before the middle of this summer.

[From the Congressional Record, Mar. 3, 1970]

THE TARIFFS AND ITS EFFECTS ON THE GLASS INDUSTRY

The SPEAKER pro tempore (Mr. MATSUNAGA). Under previous order of the House, the gentleman from Pennsylvania (Mr. DENT) is recognized for 60 minutes.

(Mr. DENT asked and was given permission to revise and extend his remarks and include extraneous matter.)

Mr. DENT. Mr. Speaker, last week I spoke on this floor and discussed the possibility of some action by the President of the United States to give relief to the harassed glass industry of my area of the country. I noted also at that time that the President had given tariff relief to the upright piano manufacturers. A report came out of the White House, and I am sorry to say the report does not appear to be factual. I would not say that the President deliberately tried to fool the people of my State and the people of this great country as to what he did or did not do with respect to the glass tariff, but I will say that he succeeded in fooling them. The headlines in my own daily paper in my district say that the President's decision helps the glass industry. The senior Senator of my State of Pennsylvania, Senator HUGH SCOTT, called the newspapers in my area and told them that this was a blessing for the glass industry, that is, the President's decision was a blessing, he reported. If Mr. SCOTT said that, then I am afraid Mr. SCOTT does not know the difference between a blessing and the last rites, because this spells the complete and final liquidation of the glass industry in this country.

I believe the letter from Fred B. Zoll, Jr., representing Libbey-Owens-Ford Co. tells more eloquently than I the real danger in the President's decision.

I predict that the acceleration of the near liquidation of our glass industry.

We will always have an industry of course, we are just too big to die off completely.

The real threat is that the foreigners will have such a large portion of our glass market that we will be dependent upon foreign suppliers for the major part of our needs.

The letter follows:

LIBBEY-OWENS-FORD Co.,
Washington, D.C., February 9, 1970.

HON. JOHN H. DENT,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. DENT: Many times in the past we have written to you about our problems in the flat glass industry in general and the sheet glass industry in particular. Though our success has been less than spectacular in achieving solutions to our problems, through your good help we have continued to bring to the attention of those in government making decisions affecting us, the impact of government trade policies on our industry. The purpose of this letter is to bring you up to date on this situation and once again ask for your help.

Without belaboring the details, recently the Tariff Commission issued two reports (which were the results of earlier hearings) regarding the sheet glass industry. In both instances, the conclusions of the Commission were that imports have caused injury to our industry and some relief is urgently needed (i.e., return to the 1930 tariff level). These reports are now on the President's desk awaiting his action, which, by law, if his action is affirmative and meaningful, must be made by February 27.

Since the issuance of the Tariff Commission's reports, industry representatives of management and labor have met with Mr. Flanigan and Mr. Colson of the President's staff, as well as the Trade Information Committee, chaired by Mr. Louis Krauthoff, to explain the full ramifications of the decisions which they are about to make.

Additionally, as those gentlemen involved already know, we have, through the good help of Senators Scott, Randolph, Baker and Bellmon, asked the President to meet with the Presidents of the corporations and unions, as well as the interested Senators, to give them an opportunity to explain fully to the President the conditions which have resulted in affirmative majority recommendations by the Tariff Commission.

We truly believe that this will be the last appeal we will make to you on behalf of the sheet glass industry if affirmative steps are not taken immediately. For an industry, in which imports supply nearly 32% of domestic consumption, which has lost over one fourth of its employees since 1964, there is no time left for continued debate. Suggestions and discussions of such remedies as adjustment assistance is mere quibbling over what sort of funeral will be afforded our industry over which government policies have decreed a death sentence.

We would indeed be grateful if, on our behalf, you would urge the President to take the steps indicated by the Tariff Commission reports. Such action, additionally, would reaffirm his dedication to the policies set forth in his recent trade message which stated that, an industry, to qualify for relief, should establish its qualifications through just such procedures as those which we have followed.

A data sheet of pertinent facts culled from the Tariff Commission reports is attached.

Sincerely Yours,

F. B. ZOLL, Jr.

Mr. DENT. Mr. Speaker, 10 years ago I told this House that unless they did something about trade and tariff, something about the impact of imports, that they might find themselves in a Nation devoid of certain types of mechanical genius that we have been able to foster in this great Nation of ours.

Right now, today, I understand there is not a single watchmaker learning the trade. You cannot prosecute any kind of a war without watchmakers who do the fine work on bombsights and the other intricate mechanisms that go into a modern war machine.

Mr. Speaker, if we were at war with a nation, any nation in the world, we would gladly raise our standards and shoulder arms and go down fighting in order to save our Nation. What do we save when we go into a war? Do we go into a war just to fight and shoot and kill a man? No. We go into a war to protect our institutions, to save our factories, and protect the lives of our people and the right of our people to happiness and the pursuit of happiness in an industrial economy and that means a job.

Here we have a new land of "invasion" from abroad. The President of the United States in his statement just last week said that we must make greater private investments overseas in order to help those countries get back on their feet and become independent. We wonder why, then, we have to take our money and put into these foreign countries with which to build factories and plants in order to provide jobs. Why, then, are the Japanese, the British, the French, the Italians, and the rest of them coming here putting their money into buying American plants and producing American domestic products. This invasion is an invasion of \$12 billion in 1968. Foreign investors have come into the United States in the last year to build plants in this country. The Japanese have bought coal mines in this country. They are buying up our timber faster than our timber matures in this country. But we find the President saying that what he has done this; he will give relief to the workers. In a story which appeared in the Wall Street Journal conveying the idea to the people that he rolled the tariff back to the 1962 level on glass. He did no such thing. He kept the present tariff that is on right now for the next 2 years. This tariff was established—the base of it—in 1967, and from 1967 to 1969 we increased the importers' share of the American market from 31 percent to 46 percent.

Here are the facts as they read out.

The American Saint Gobain Co. is a subsidiary of the Saint Gobain syndicate, the largest glassmakers in Europe. They bought the American Window Glass Co. when it reached the point that it could not withstand foreign competition.

This is now an American producer. This company joined other American producers to fight for imports. They know that imports have forced the American companies out of business. Now they are being rewarded by the President with relief and "American made" financial disaster for trying to sell instead of importing.

This means that you and I as taxpayers are going to have to pay 650 workers who have lost their jobs permanently at the glass manufacturing company at Arnold, Pa., the plant that has just been shut down and will be finally phased out within the next few weeks. These 650 workers were awarded 85 percent of their wages for the next year.

The company is going to try to get aid and assistance from the Government of the United States for the loss of their plant. Five hundred workers have now been awarded assistance under the Trade Act amounting to \$1.232 million for the present year.

What kind of logic is it for this country of ours to deny a man an opportunity to work and then feed him the sop that he can have relief? We are subsidizing every item that comes into this country because when we pay our workers for not working we subsidize foreign competition that caused their job losses in the first place.

It may interest the President of the United States and the Congress of the United States to hear this particular figure. The January employment in the four-county area of Allegheny, Beaver, Washington, and Westmoreland Counties—which is my district, and the district represented by Mr. GAYDOS—the job loss in January, was 27,600 jobs. Remember, every time you lose a job in industry you lose three jobs in service industries. The economic figures for the State of Pennsylvania show that we have a total work force of 5,014,200 people working in the labor force. In that labor force we have in manufacturing 1,581,000 workers, which is roughly about 3.25 men and women who are in service, non-manufacturing, that are kept by one worker in a factory.

Mr. Speaker, I want to thank the gentleman from West Virginia (Mr. Hechler) for allowing me to proceed ahead of his special order. The gentleman from West Virginia was entitled to the first special order today. However, I have to attend a large dinner tonight for the Pennsylvania farmers. And, speaking of farmers, it might interest the Members to know that while we talk free trade for American products made in our factories, we have a tight-fisted protectionist policy on foreign products.

You cannot bring cotton into the United States, except under very tight regulations and quotas. But you can bring in manufactured textiles. You cannot bring wheat and you cannot bring flour into the United States in unlimited amounts. Why, then, is it so important to protect the jobs and the welfare of the farmers of this country of ours and at the same time we say that it is not important to protect the workers?

I am for protecting the farmer and the worker and the business people of my whole country. Let us cut the double talk; let us not be the continuing victim of international blackmail.

Mr. Speaker, I wish to discuss the problem being created for American industry and American labor by our outmoded Trade Agreements Act.

The President of the United States either ignored the facts in the case of the glass industry, or was misinformed by the international industrialist whom he has named as the chief trade negotiator, Mr. Gilbert. This man for many years was connected with Gillette razor blade company with many foreign-based companies, some of which I visited overseas.

In the case of the pianos that were manufactured in Arkansas, the President found room to give relief to that industry. The facts, of course, were such that the merited relief came too late to help save that industry. In 1960 we imported 4,200 upright pianos and this figure jumped to 29,000 in 1969. Japan exported 94 percent of all the pianos imported into the United States.

President Nixon suspended the Kennedy round tariff reduction, which went into operation January 1, and gave an increase of 2 percent in tariffs to the piano manufacturers. I cannot believe that 2 percent will do much good to the piano industry. Incidentally, this only affects upright pianos, so it is my prediction that the Japanese will start shipping baby grands, spinets, and any other forms that pianos and organs can come in. I do not believe that you can buy an American made toy piano, one a great seller at Christmastime in this country. For all

purposes, the upright piano has joined the line of consumer goods that are no longer manufactured, or if they are they are manufactured in insignificant numbers and volume.

I would not charge the President with deliberate lying, however, there are some very serious mistakes in the newspaper report.

I can give you two instances where the Labor Department awarded, and the President allowed, relief in the form of "trade act assistance" which paid some 500 workers approximately \$1,232,000 for 1 year for injury under the Trade Act. The story by the Wall Street Journal staff reporter is in error; the President did not give relief to the glass industry or its workers because the plea of the glass workers was based upon the present tariff and the damage done by its provisions about 4 years ago.

President Kennedy raised tariffs right after the passage of the trade agreements, which called for reductions in tariffs. He raised the glass tariffs because he was convinced that the industry was injured seriously because of the imports. The industry was almost holding its own under the Kennedy formula. When President Johnson reduced the tariff the industry started to slide again.

The story claims President Nixon was allowing the Kennedy rates of 1962, but this is not the case, nor is it the truth. What he did do was hold the present rates, which are lower than the Kennedy rates. It was this lowering of rates that made it impossible for the American industry to compete. What the President did was to mislead completely the American glass workers and the American people whether by intent or by a lack of understanding of the problem.

The glass-tariff caused the loss of 1,323 jobs in the flat glass sector of the glass industry in 1968, 1,100 in 1969, and another 650 workers are now winding up their jobs at the American St. Gobain plant in Arnold, which has been struggling to stay in existence since the tariff reduction in 1967. This plant will be closed permanently, and another plant in Jeannette, Pa., my hometown, has reduced its labor force from 900 to slightly over 300. The third St. Gobain glass plant affected is in Okmulgee, Okla.

It may interest the Congress, the President, and the Tariff Commission to know the seriousness of the plight of the glass industry as shown by the fact sheet attached hereto. In 1968 our American industry operated at only 44 percent of its capacity. Imports accounted for 32 percent of our consumption for that year.

Since 1969, 1,100 were added to the 1,323 who lost their jobs since 1967, and added to that are the 650 who lost their jobs on a permanent basis without any hope of getting back into the industry. These are the vital statistics.

The facts were available to the President and the Tariff Commission; I know they were since I made them available myself. However, the President saw the problem differently through his Federal trade negotiator.

American consumption dropped 2.8 percent from 1964 to 1968, while imports increased 31.9 percent. Import relationship was 30.6 percent to American products in 1968.

I understand also from the release from the President's office that the reason he could not give relief to the glass industry was that the European Common Market especially the Belgians would get angry and hinted or threatened retaliation. This is international blackmail, plain and simple, or, to quote the Belgian Ambassador:

Such action could result in retaliation abroad against U.S. exports.

I post this question to Congress, the President, and the Tariff Commission: Who are we that we should decide whose jobs should be sacrificed in this idiotic trade policy? We have not been ordained to decide the lives of people, or who lives on relief, who goes on unemployment and who gets uprooted from their homes so that some other workers in another industry can be protected. You cannot rehabilitate an industry by giving that industry expert advice or so-called Government aid, or to retrain workers for other jobs that are nonexistent. What kind of logic is the President using when he says, according to the report, that the Department of Commerce will approve loans, tax benefits, and technical assistance for companies eligible for the trade adjustment aid. Would not Belgium be angry at that, too? And, why should the working taxpayer pay out millions of dollars to industries who want to operate and workers who want to work. Is that sound economics?

I include a table at this point:

TARIFF COMMISSION DATA PERTINENT TO THE SHEET GLASS CASE

	1964	1968	Percent change
I. Idle capacity (data in thousands of short tons):			
Sheet glass:			
Production capacity.....	1,393	1,545	+10.9
Production.....	777	681	-12.4
Unused capacity.....	616	864	+40.3
Apparent U.S. consumption.....	1,001	973	-2.8
Imports.....	238	314	+31.9
Ratio, imports to production.....	30.6	46.1	
II. Indexes of production, demand, and employment (1557-59=100):			
Industrial production.....	132	165	+25.0
Housing starts, nonfarm.....	111	110	-.9
Nonresidential construction.....	124	153	+23.4
Automobile production.....	151	175	+15.9
Sheet glass production.....	117	103	-12.0
Output per man-hour.....	115	118	+2.6
Man-hours of work, sheet glass.....	102	87	-14.7
Imports, sheet glass.....	140	184	+31.4
III. Share of the U.S. market, imports versus domestic shipments (data in millions of pounds):			
Sheet glass:			
Apparent consumption.....	2,002.7	1,974.8	-1.4
Of which:			
Imports.....	476.9	628.7	+31.8
Domestic shipments.....	1,530.0	1,352.8	-11.6
Ratio, imports to consumption.....	23.8	31.8	
	1964	1968	Change
IV. Impact upon employment of production workers:			
Sheet glass:			
Domestic employment.....	9,369	8,046	-1,323
Domestic shipments (millions of pounds).....	1,530.0	1,352.8	-177.2
Imports (millions of pounds).....	476.9	628.7	+151.8
Ratio, imports to shipments.....	31.2	46.5	85.7
V. Impact upon earnings:			
Sheet glass:			
Domestic shipments:			
Quantity (millions of pounds).....	1,530	1,352.8	-177.2
Value (millions).....	\$143.9	\$141.5	-\$2.4
Unit value (per pound).....	\$0.094	\$0.105	+\$0.011
Domestic earnings before taxes (millions).....	\$18.1	\$8.2	-\$9.9
Ratio, earnings pound of shipments.....	\$0.012	\$0.006	-\$0.006
Imports:			
Quantity.....	476.9	628.7	+151.8
Value (millions):			
F.o.b. origin.....	\$30.3	\$44.3	+\$14.0
U.S. market.....	\$42.0	\$62.2	+\$20.2
Unit value (per pound).....	\$0.088	\$0.099	+\$0.011
Ratio, value of imports shipments.....	29.2	44.0	
Ratio, domestic earnings/sales, before taxes.....	12.6	5.2	

[From the Congressional Record, Mar. 17, 1970]

THE FOREIGN TRADE POLICY OF THIS COUNTRY HAS BEEN RUNNING ON A SINGLE ONE-WAY TRACK FOR 35 YEARS

The SPEAKER pro tempore (Mr. Flynt). Under a previous order of the House the gentleman from Pennsylvania (Mr. Dent) is recognized for 60 minutes.

Mr. DENT. Mr. Speaker, the foreign trade policy of this country has been running on a single one-way track for 35 years. The so-called reciprocal trade program was first enacted in 1934. Under it our average tariff level has been reduced upward of 80 percent.

Far-reaching economic changes have occurred in this country and in other parts of the world during this long period of time. Yet the national trade policy continues with very little change, thus ignoring the altered conditions that has in the meantime greatly affected international competition.

The President seeks further tariff-cutting authority even though our average staff is less than 20 percent of what it was 35 years ago, when the tariff cutting was inaugurated. The full cuts agreed to under the Kennedy round still have 60 percent of the way to go before their final installment is completed. Therefore the full effects of these cuts have not made themselves felt. Why then extend further authority now to cut what will be left of the tariff in 1972?

The principal economic changes that have transformed the competitive standing of this country in point of both imports and exports in recent years can no longer be successfully concealed, as they have been over the years by false governmental reporting of trade statistics. The competitive tide has been running so strongly against us in recent years that efforts to conceal our weak international competitive standing have come a cropper. Today the handsome trade surplus that measured from \$4 to \$7 billion annually until the past 2 years has all but disappeared despite the padded statistical device used by the Department of Commerce under which it included foreign aid shipments as exports.

The inclusion of goods paid for by the American taxpayer as exports made it possible to point to our trade policy as a great success whereas we were falling increasingly behind in our competitive exports. At the same time the official statistics showed our imports at their foreign value without including ocean freight and other charges. This practice is contrary to that of nearly all the other leading trading nations. The practice understates the actual costs of our imports by some 10 percent.

Today what appears to be a trade surplus of the magnitude of about a billion dollars is really a deficit in terms of competitive goods. This deficit is in the magnitude of \$4 to \$5 billion.

By hiding or ignoring these uncomfortable facts the present administration is able, no less than the preceding administration was able, to propose further tariff reduction, as if other countries needed further inducement to increase their sales in this country. That no such inducement was or is necessary may be concluded from the upward surge of imports in recent years, especially in the form of manufactured goods.

One of our heaviest export items consists of machinery. From 1960-68 our exports of this item doubled—moving from \$4.4 billion in 1960 to \$8.8 billion in 1968. Imports of machinery, by contrast, increased over fivefold—moving from \$0.7 billion in 1960 to \$3.7 billion in 1968. This still left a high margin in favor of exports, but the trend is unmistakable, and it has been running very rapidly. Indeed machinery, including the sophisticated products of electronic origin, together with chemicals and aircraft, represent the only important surplus items in exports. An astoundingly wide variety of other products are incurring deficits in varying degrees. The public is little aware of our very weak competitive position.

Such buoyancy as our exports show today is virtually confined to the narrow sector just mentioned. In 1968 we enjoyed an export surplus in these few products of \$9.3 billion. Little wonder that some of these industries support the continuing tariff-cutting program.

Comparing this record with that of the products classified by the Bureau of the Census as "other manufactured goods." In that group, which includes iron and steel mill products, textiles, clothing paper and manufactures, rubber manufactures, metal manufactures, photographic supplies, glassware, pottery, boots and shoes, clocks and watches, bicycles, toys, sporting goods, motorcycles, and so forth, a deficit instead of a surplus was shown in 1968. This deficit was one of \$5.473 billion. As recently as 1960 this deficit was only \$760 million, or about one-seventh of its 1968 magnitude.—Source: Statistical Abstract of the United States, 1969.

At the same time our surplus in the machinery, chemicals, aircraft exports grew only a little over 60 percent from 1960 to 1968.

This simply means that while we had a moderate increase in our trade surplus in the front-running group we suffered a disastrous increase in our trade deficit in the much broader group of "other manufactured goods."

These realities of our changing trade trends are wholly ignored by the thrust of our continuing trade policy.

In 1968 the number of workers employed in turning out the "other manufactured goods" was nearly 2 million higher than those engaged in manufacturing

machinery, chemicals, and aircraft. Yet it was in the former group that we suffered the heavy trade deficit. A deficit of this magnitude—that is, of over \$5.4 billion—having widened since 1960 so dramatically—sevenfold—reflects a sharp deterioration of our competitive position.

Evidently the trade advisers of the White House have failed to bring these facts to the President's attention. Otherwise the President could not propose further tariff reductions.

Beyond the trade trend in recent years represented by the statistics cited here, which pose a threat of disaster to industries that employ over 7½ million workers, another shift in our trade mix has taken place. It too carries ominous implications. In 1950 only 27½ percent of our imports consisted of manufactured goods. During the 1936-40 period the share was 32.8 percent. In 1968 the share was approximately 65 percent. In other words, our imports have shifted heavily toward goods incorporating a full complement of labor application. The impact on unemployment is therefore twice as great as formerly. In this country employment in manufacturing is of a ratio of about 3½ to 1 in relation to employment in agriculture, mining, fishing, and lumbering, which produce our raw materials. Our imports today therefore offer a sharper threat to our employment than in the past.

Measured in relation to exports of all other countries, American exports, including foreign aid, have lost ground in recent years. This means simply that exports of other countries have expanded more rapidly than U.S. exports. In turn, this suggests that their goods are more competitively priced in world markets. In 1960 our share of world exports was 15 percent; in 1967 it was 14.5 percent. Had our exports in 1967 enjoyed the same proportion of world exports as in 1960 we would have exported \$4.6 billion more in 1967 than we did export, or \$35.8 billion instead of \$31.2 billion—see United Nations Statistical Yearbook, 1968.

The irrebuttable fact is that we are in a weak competitive position in world markets and in our own market vis-a-vis imports.

The trend since 1960 is unmistakable. A trade policy that was based on competitive conditions as they existed before 1960 is no longer in focus. It is unrealistic.

What does our weak competitive position suggest with respect to our trade policy?

The problem of import competition would be more acute than it is were it not for the \$30 billion annual boost to our economy provided by our Vietnam involvement. Since our tariff has been cut to an ineffective level without present hope of reversal some other instrument for control of our market-and-employment erosion attributable to imports must be provided.

The establishment of import ceilings with a backstop of import quotas as provided in the fair international trade bill, represents one. That bill provides for expansion of imports in proportion to domestic consumption, and in most instances, calls for acceptance of the attained level of imports. However, this is a useless exercise unless the level of imports is measured by individual industries and products. No foreign product must be allowed more than 10 percent of U.S. market—or less for some definite type.

It has been introduced in the Senate by the chairman of the Senate Finance Committee and in the House by over 45 Members, including four committee chairmen.

Enactment of this legislation would provide assurance that imports, despite their cost advantage resulting from lower wages, will not be allowed to run wild and thus disrupt industry after industry. Instead of relying on first-aid administration in the form of adjustment assistance, the injury to our employment and industrial expansion would be controlled ahead of time. Imports would not be awarded the right of eminent domain in our market but would be given the opportunity to grow in proportion to domestic consumption.

We face an opportunity to adopt a trade policy that would achieve the undoubted benefits of world trade without incurring its unfair and destructive impact on a widening front.

The weakness in this lies, of course, in surrendering our presently crippled industries to a nongrowth future if we allow further percent inroads in the U.S. market.

This phase must be tailored to individual industries and products rather than on an across-the-board formula.

OIL IMPORT CONTROLS VITAL TO THE PENNSYLVANIA ECONOMY

A warning that unlimited foreign oil imports could deal a "crushing blow" not only to Pennsylvania oil producers but to the State's coal industry as well has

been voiced by Dr. H. Beecher Charnbury, State secretary of mines and mineral industries.

In a letter addressed to Interior Secretary Walter J. Hickel, as a member of President Nixon's Cabinet Task Force on Oil Import Controls, which is currently reexamining the mandatory oil import control program established by President Eisenhower in 1959, Dr. Charnbury stressed the economic importance of the import quota program to Pennsylvania. He said:

As you know, Pennsylvania in 1859 became the world's first major oil-producing area, and today—after 110 years—this state is still known for the high quality, if not the quantity, of the oil it produces.

A characteristic of Pennsylvania's oil production today is that 83 percent of its present volume comes from 43,925 of the so-called stripper type of wells, each averaging less than a barrel a day.

These, like the 377,000 such wells in the nation, which collectively produce one-fifth of the nation's domestic crude, are marginal operations which would be the first to feel the impact of unrestricted foreign imports. Many of them would undoubtedly be forced to close down, never to be reopened again, since their future depends largely upon uninterrupted operations for as long as they continue to produce.

One classic example of long-time survival of an ancient Pennsylvania well in old "McClintock No. 1," near Oil City, Pa., which is still pumping oil today, after 108 years of continuous operation.

In the Pennsylvania Grade oil region in District 1, comprising portions of four states, there are over 2,000 independent producers operating over 100,000 producing wells whose output averages less than $\frac{1}{4}$ barrel per day. Collectively their average daily output in 1968 was 33,000 barrels per day, with recoverable reserves estimated at upwards of 200 million barrels.

The crude oil from this four-state area is processed by nine small refineries with thru-put capacities ranging from 1,000 to 10,000 barrels per day. These refineries, especially designed to process Pennsylvania Grade crude oil, which is noted for its high lubricating content and quality, are part owners of the pipe lines and gathering systems used for transporting this particular type of crude.

There are no other special markets for this type of oil, and if there were, it undoubtedly would have to compete with other domestic or foreign crudes selling for considerably less than the \$3.76 to \$4.63 a barrel Pennsylvania Grade crude commands.

Although high quality lubricating oil is the bread and butter product of these refineries, about three-quarters of each barrel refined by them consists of gasoline and distillate fuels, by-products which do have to compete on the market with the gasoline and distillate fuels refined from crude from other sources, foreign or domestic.

Pennsylvania's lube oil refiners today are said to be marketing these other products largely at a loss. But there is a limit of course, to how much loss on gasoline and distillate fuels they can absorb. The import quotas allocated to them is an important factor in keeping them alive. Without it, they could very well cease to exist. And without these special type refineries, not only would the Pennsylvania producers lose their market but the nation would lose a valuable natural resource.

The Mandatory Oil Import Control Program has not really been costly to the American consumer, as some of its critics assert. It has achieved its purpose of providing a reasonable balance between imports and the levels of domestic production necessary to keep this nation from becoming dependent upon foreign sources of oil—either by wantonly exhausting its own domestic reserves on the one hand, or by drying up its own productive capacity through actions tending to render it unprofitable.

Unlimited foreign oil imports would immediately deal a crushing blow, first, to Pennsylvania's dwindling anthracite coal industry and eventually to the bituminous industry, too.

The argument that foreign crude is today slightly cheaper than oil produced in the United States loses much of its appeal when one realizes that this is a condition which could quickly change. Only for so long as the United States continues to maintain its own productive capacity at a high level does it pay those foreign nations to offer their oil for less.

Foreign oil can be expected to remain cheap only for so long as we do not need it. Once we let ourselves become dependent upon foreign nations, many of them not particularly friendly to the United States, not only will the costs rise but the availability may become less certain.

Under those circumstances, the United States could one day learn to its sorrow that it has paid the price—both economically and in terms of national security—for its own shortsightedness in abandoning an import policy which has well served the best interests of the nation as a whole.

COAL THREATENED BY OIL AFTER MAKING GREATEST COMEBACK IN INDUSTRIAL HISTORY

"King Coal" may again feel the impact of oil imports after giving up over 300,000 jobs by automation to meet oil competition.

For the first time in history, foreign residual oil is attempting to penetrate the Midwestern part of the United States, thereby threatening major markets for coal. Also in this area utilities, industry, and others consume nearly a hundred million barrels annually of domestic residual oil.

This could be the opening effort toward bringing foreign residual oil into the whole midcontinent area accessible to the Mississippi and tributary streams as well as to the other Gulf of Mexico ports stretching from Alabama to Texas. In this area, composing districts II, III, and IV, residual oil is considered a product and currently can be imported only by special permit from the Oil Import Appeals Board together with a supplemental application in the amount to be permitted by the Secretary of the Interior. Such a supplemental application presumably would have to be over and above present limitations on the imports of crude oil and products which are 12.2 percent of domestic production of crude oil—overland shipments from Canada and Mexico are exempt.

The applications now pending are for total imports of 21,862,500 barrels of low-sulfur foreign residual annually into areas served by the Mississippi River system. Up to now, only the petition of Commonwealth Edison Co. of Chicago for a 6-million-barrel-per-year allocation has been heard, and a decision is expected soon. The Commonwealth petition was tied to the alleged need of the company to burn the imported oil in its Ridgeland station in place of coal as an air pollution control measure.

The four other petitions, filed by oil distributors and involving a minimum of 15,862,500 barrels of imported oil per year, are also tied to the alleged need for more low-sulfur fuel in the geographic area involved. If the Commonwealth petition is approved, it is difficult to see how the Oil Import Appeals Board can turn down the other four petitions and the many others which would undoubtedly follow.

Deeper and more fundamental issues than the need to make more low-sulfur fuel available to meet air pollution requirements are involved. These include:

First. Approval of the petitions would set a precedent that could open the heartland of the country to a foreign fuel to compete directly with indigenous domestic fuel. The amount of domestic fuel which could be threatened by widespread imports of foreign residual are indicated by the table on the following page. This shows that in 1968 districts II and III, which would be accessible to foreign shipments, consumed about 288 million tons of coal and about 90 million barrels of domestic residual oil. With the anticipated tremendous growth in demand for power, however, principally electricity, the billions of tons of coal reserves in many of the Western and Midwestern States have been expected to provide substantial new amounts of energy and major boosts to the economy of these States. A substantial shift to foreign residual oil, however, could have a serious impact on the degree in which the development of these western coals takes place.

Experience on the east coast has demonstrated the degree to which imported residual fuel can replace domestic fuels in a relatively short time. In 1969, residual imports totaled more than 400 million barrels and constituted about 85 percent of all residual consumed in the area.

CONSUMPTION OF COAL AND RESIDUAL OIL IN 1968 DISTRICTS II AND III

	Electric utilities	Industrial	All other	Total
COAL (thousand tons):				
District II.....	157,423	54,576	46,479	258,478
District III.....	17,666	2,027	8,518	28,211
RESIDUAL OIL (thousand barrels):				
District II.....	3,256	21,901	37,159	62,316
District III.....	330	2,578	25,076	27,984

Second. Permitting electric utilities and other industrial plants in districts II to IV to become dependent upon imported fuel would create serious national security problems. The Nation would be hard pressed to supply east coast utilities and other essential industries with fuel in the event developments outside the control of this country should cut off foreign sources of supply. If utilities and other industries in the middle of the Nation become dependent upon fuel from these same foreign sources, the problem of assuring uninterrupted power and industrial production would be greatly compounded.

Third. The Nation's already serious balance-of-payments problems would be further distorted. In 1968, this Nation suffered a deficit of \$1.8 billion in its foreign trade account for energy—despite a contribution of half a billion dollars to a favorable trade balance by coal exports. This unfavorable situation will deteriorate even further if we permit the interior of the Nation to become substantially dependent upon imported fuel, as is the case of the east coast. This proves the point that all industries must be compared on an individual basis and not as part of total picture.

Fourth. Imported fuel is not the answer to any fuel problem which might be created by air pollution control regulations. As far as utilities are concerned, the ultimate answer is the installation of processes to remove the pollutants from the stack gases. A number of reputable companies say the technology is presently available for installation. Other processes are in the late development stage. They can achieve the same result with domestic coal as would be achieved with imported fuel, without further complicating national security of our balance-of-payments situation. If plants needing low-sulfur fuel are now permitted to import this fuel, the incentive to try available technology or to complete the development of new technology will be destroyed. In the long run, the Nation's clean air program would be retarded or set back.

Fifth. Granting of quotas to import residual fuel oil would mean: the 12.2 ratio of imports to production in districts II to IV would have to be breached; or the amount of crude oil or other products imported would have to be reduced by an amount equal to residual imports. In the first instance, approval would amount to a significant deterioration of the oil import program. In the second instance, while the total amount of fuel available would not be affected, traditional marketing patterns for domestic residual and coal would be disturbed, causing serious economic dislocation in many areas.

For these and other reasons, there is no justification for breaking with precedent and permitting residual fuel oil to be imported into districts II to IV. Certainly, where air pollution problems exist, we must all work to find solutions to them. However, these solutions would not have to come through the importation of low-sulfur foreign fuel. Alternatives include desulfurizing domestic residual, utilization of domestic low-sulfur coal where available—and it is known that Commonwealth Edison, for example, has been offered low-sulfur coal from both Wyoming and eastern Kentucky—or the development and installation of stack emission control devices. Several companies now have such devices commercially available, and in very few situations does an immediate emergency exist which would preclude the granting of sufficient time for the installation of such devices to control pollutant emissions.

Either or several of these alternatives would avoid the serious national security and balance-of-payments implications which a precedent-setting decision opening up the Midwest to an insecure foreign source of energy fuel would involve.

"ADJUSTMENT ASSISTANCE"

Mr. Chairman, one wonders why the old pro-forma free trade advocates suddenly make Adjustment Assistance the great cure-all for our trade failures. I think I know why.

It is because it sounds so good and follows an old pattern like the Mother who thought she undid all the damage and removed the pain by kissing her child's tears away after giving him a good spanking.

My people do not want this kind of relief.

Let me at this point submit an article printed in the *Pittsburgh Press* concerning glass workers who were recently awarded Adjustment Assistance:

GLASS LAYOFFS SAP LIFE OF ARNOLD AND ITS WORKERS

(By Jerry Sharpe) Press Staff Writer

ARNOLD.—The giant glass manufacturing plant that has provided work here since the 1880's is now as silent as the distant green hills across the Allegheny River.

The click-clack of machinery no longer is heard, and no workmen swarm about the yards.

Not a wisp of smoke comes from the rusting stacks that tower over this city of 10,000 residents.

650 WORKERS IDLED

One block down 18th Street at a service station operated by a former plant employee, glass workers gather every day to pass the time.

They are a few of the 650 who have been laid off since the American St. Gobain Co. began to cut back sheet glass production in the fall of 1967.

The layoff means 17 percent of workers in the Arnold area are idle.

The average age of the laid-off worker is 46, and some of them have worked at the Arnold plant more than 30 years.

As Dominick Saulle, Arnold's Chamber of Commerce secretary put it: "They are too young to retire. They are too old to get another job, and they don't know how to do anything except work with glass."

RELIEF BITTER MEDICINE

He added, "Some of them are on relief. But, brother, that's bitter medicine . . . because they were raised by European ancestors who never believed in taking a handout from anyone."

Arnold Mayor William DeMao said the loss of wages has removed \$3 million annually "from the city's economy."

In addition, he said the workers paid wage taxes amounting to \$7,597, and the plant paid annual property taxes of \$42,132.

Union and company spokesmen, congressmen and Arnold city officials agree there are three major reasons for the layoffs:

Glass imports from Europe and Japan.

A slowdown in the building industry which uses the sheet glass for windows. Streamlining of production methods with the result that less manpower is needed.

GLASS FIRM SCORED

Joseph Martin, Chamber of Commerce president, said, "I'm not interested in reasons like those because they are excuses.

"What it amounts to is that American St. Gobain owns the prime land right in the heart of town, and they have an obligation to provide work."

American St. Gobain is headquartered in Kingsport, Tenn., and the company operates five plants in the United States including another at Jeannette here in Westmoreland County.

The controlling stockholders of the firm are at St. Gobain, France, and numerous plants are located in Europe.

A company spokesman at Kingsport said, "I can't make any comment on the Arnold plant except to say it's on a standby basis because of business conditions."

The plant occupies 42 acres—about one-tenth of the land in this city.

Two union presidents, William D. Barnes and James W. Jenson, have suggested that the company convert the plant so it will produce glass by the more modern and less expensive "float" process.

"But," added Jenson, "even if they do, that would eliminate about 300 jobs because you wouldn't need as many people."

LITTLE CHANCE FOR JOB

Barnes said, "These guys are in a bad spot. They try to get other jobs, but their age is against them. Then, too, some employers have refused to hire them because they are considered still on standby at American St. Gobain."

He added, "The unions have asked for severance pay, but the company says the employment of these men is not really terminated."

Jenson said, "One thing sure, we don't see any chance that there'll be any work at the plant this year."

Donald Beck of the New Kensington-Arnold Area Industrial Development Corp. said, "The real solution would be for us to acquire the property so another industry can move in. We've tried—but American St. Gobain said it's not for sale."

Arnold officials have sent petitions with over 80,000 signatures from the city and nearby communities to Washington officials asking that glass imports be cut back by increasing tariffs.

DeMao wrote to President Richard M. Nixon on the same issue, and along with a delegation of Arnold residents, went to Washington to testify at a congressional hearing on tariffs early this year.

On Feb. 27, the President decided there would be no change in the tariffs on sheet glass (1½ cents per square foot).

U.S. Rep. John H. Dent, D-Jeannette, who represents the Arnold area, charged that the President's decision "spells the complete and final liquidation of the glass industry in this country."

Also on Feb. 27, Mr. Nixon decided to provide federal compensation for most of the unemployed Arnold glass workers for one year because their lack of work was the result of government trade policy.

The government relief action aroused anger in Arnold.

Dent said the taxpayers would have to foot the bill for "paying these workers for not working."

LABELLED "FOREIGN AID"

"They want jobs, not relief," he said. He added that present tariff regulations on glass amount to "subsidizing foreign competition that caused these men to lose their jobs in the first place."

Back at the gas station where the idle workers spend their time, Dominick Murri, 51, who worked at the plant 34 years, commented, "I'm gettin' \$60 a week to support a family."

"That's unemployment compensation. So government relief is comin' now. So what? We don't want their handouts. We want jobs."

Guido DeFelices, who was laid off in November 1967, said, "I was laid off so long ago, I don't even qualify for the President's new form of relief. And I'm 58. So you tell me, where can I get a job?"

Neno Calcagno, 55, said, "Relief makes us a statistic. Our government is promoting jobs in foreign countries, but taking ours away."

Walter Hess, Henry Loehner and Malcolm Conwell agreed, and Loehner said, "Yeah, let's take care of America first."

Joseph Reskiewicz, 50, looked at the silent plant where he had worked for 34 years.

"I never lose hope," he said. "Maybe someone will buy the place and put us all back to work. After all, the best glass in the world always came from Arnold."

Mr. Chairman, doesn't it ring an old familiar bell when you note that the relief was made retroactive to February 1968. If this Committee was not looking into the trade situation, not one of these workers would ever have received a red cent.

Take, for instance, Guido DeFelices who was one of the first victims of import job stealing. He was laid off in November 1967, three months too early. He and hundreds and thousands like him will never receive one cent of Adjustment relief under the provisions of the Trade Expansion Act. I know of no production facility that has received any adjustment relief or assistance.

This relief is merely "sugar coating" to quote the disturbed workers and producers, and will stop the minute the new law passes.

What's the difference? These men would get just as much out of regular unemployment compensation, and would still have a long road ahead with no job prospects in sight.

I get to thinking about the proponents of Adjustment relief, Mr. Stans, Mr. Rogers, Mr. Gilbert, the Japanese Trade leaders, Charlie Taft and others, and have come to this conclusion: if Adjustment Assistance is good for those hurt by imports, it must be good for those hurt by loss of exports.

I offer an amendment to this Committee for consideration. It proposes Adjustment Assistance for injured exporters and their employees. If it's good for the goose, it should be good for the gander.

I hear the same old faded rhetorical arguments for free trade. No new thoughts have been provoked even in the face of a pending collapse of the U.S. Market-place.

Fear is frequently expressed that limitations imposed on imports might lead to reduced exports. It may be conceded that such results might on occasion be produced even if only indirectly.

In such event, exporters of domestic products might suffer injury because of shrinking foreign markets. It seems only right and just that such exporters should be treated with consideration equal to that accorded domestic industries, firms and workers who are seriously injured or threatened with serious injury by rising imports.

It is, therefore, proposed that whenever exporters of any product have reason to believe that their exports are suffering seriously as a result of an increase in duties imposed on imported goods, or from the establishment of import quotas on imported goods, an application may be made to the Tariff Commission for an investigation of the allegations. If the Commission finds as a result of a preliminary investigation that the complainants are justified in their concern, it shall hold a public hearing at which interested parties may appear, give evidence and be heard.

If the Commission finds as a result of the hearing that serious injury or a threat thereof has been suffered by the exporters, it shall certify the names of the complainants to the Secretary of Commerce as eligible for Adjustment Assistance to such extent and for such a period of time as may be necessary to rehabilitate such exporters.

As set forth elsewhere in this Act, the Secretary of Commerce shall extend assistance in the same form as that extended to domestic industries, companies or unions under the provisions of the Trade Expansion Act of 1962, extending, as may be necessary, advice designed to improve that export techniques of the complaining exporters, including suggestions of other products to which their export efforts might be directed.

I feel that it is only proper that American exporters should be given equal access to Adjustment Assistance alongside of American producers. With the assurance of such liberal treatment, the exporters should be satisfied to await results, knowing that they will be beneficiaries of a liberal policy. Should they have to wait eight years they could occupy their time meanwhile meditating on the virtue of patience.

Mr. Chairman, may I say in conclusion that while I support any and all measures that offer even a semblance of relief to all industry I cannot help but be fearful for the textile and shoe industry. Somewhere along the line these industries must realize that they cannot prosper if the rest of us in other industries find ourselves unable to maintain our production, and thereby deprive both the textile and shoe industries their domestic market.

Years ago Lewis Lloyd made this statement, and it is my opinion that this should be the basis of our thinking:

There is, in fact, unwarranted pride and a good deal of misconception about American mass production. It is true that Eli Whitney, an American, conceived the idea of interchangeable parts, and hence the basis of assembly-line production, but it remained for Mr. Ford to see that mass production is possible only if there is a mass market. This conclusion led to his high wage policy. The real genius of America has been the creation of mass market.

It is not surprising to find industries and companies with surplus capacity who want to export and who clamor for lower tariffs to get more imports to support their exports. These situations, however, are temporary and are hardly a sound basis upon which to build a United States foreign trade policy.

Many there are who have adopted the cry, "let us reduce our tariffs and thereby lead the world to freer international trade." This proposal loses its appeal when we look at the history of trade reductions under the 20 years of Reciprocal Trade Agreements. During that period, we had reduced our tariffs by 50 or 71 percent, depending on how the calculation is made, but the other nations of the world have not followed our leadership. In some foreign countries tariffs are higher than they were in the early 30's, and in most countries, import licenses, quotas, currency restrictions and the like have substantially increased the barriers to foreign trade. We have reduced our tariffs to an average of about 5 percent on total imports—the lowest among major nations of the world. If this has not been adequate leadership, then how could even the complete removal of our remaining small tariffs impress foreign nations sufficiently to get them to reverse their trend of increased trade restrictions?

Further lowering of our tariffs would constitute an act of slow national suicide. Since when has self-destruction become a sound basis for leadership?

Many of those who are clamoring loudly for United States tariff reductions to demonstrate our world leadership seem to have forgotten a very important psychological principle; namely, that no man can be reformed, he must reform himself. There is nothing which we could do which would guarantee sound economies for other countries. Those who have or develop the will to try to solve their own problems will find that we have already offered very substantial leadership. Some Europeans understand this even though some of us may not. All nations must look inward for their basic well being.

Competent Europeans have said that their trade problems can never be solved until the substantial trade barriers between European countries are eliminated and the Europeans are able to trade more freely with each other. They added that when that time comes, their dollar gap problems will vanish and they will be much less concerned with exporting to this country. Recently, when this was called to the attention of some young economists who had just left the State Department, they were greatly concerned. They seem to feel that it would be a great calamity if the Europeans solved their own trade problems. I wonder if many who want us to still lower our tariffs are not overly concerned about trying to solve somebody else's problem.

Gentlemen, I am more convinced than ever that we have to set a single Federal standard of no more than 5 percent of the domestic market for imports, and that this same 5 percent must sell at the going price or we all can forget about the mass market and without the mass market even the foreign exporters will not have a market here.

Indeed, there must be some kind of reciprocal trade agreements to keep this nation from floundering economically, and Congress must do it themselves, and not allow the serving Presidential Commissions to do it.

I remember years ago when Europeans said their trade problem would not be resolved they eliminated European trade barriers. After millions of dollars expended by this country, and after billions of dollars of free trade dumping in the U.S. this situation has been straightened out, but they are still fighting trade deficits. The U.S. is not even a member of the European Community yet it is allowing itself to be raped by International trade diplomacy.

One single fact stands out, two years ago Britain was \$850 million negative in their trade balance, last year they were \$900 million to the good. Why? Simply because the U.S. makes many of its aerospace purchases to Great Britain. We have 155,000 unemployed aerospace workers as a result, while Great Britain has 225,000 fully employed workers.

Britain put through an executive order on imports, especially steel, whereby they would pay a bonus of so much a ton to every user who would not buy foreign steel for every six month period of use.

I do not know how long it will take to wake up, but only those who believe in fairy tales will look for a Prince Charming to be waiting to take this country in his arms and protect them against the breakdown that has taken place in the industrial and economic system.

Sorry, to have taken so much of your time but I realize I do not expect to be around too long in this fight. I am much disturbed that there are still some industries that believe they can go it alone by receiving a handout in some international quota deal.

I close by saying that no quota system has ever worked and none ever will. No nation with high cost economy can survive in a world of free trade with low cost economy countries.

Mr. ULMAN. If the Honorable Joseph M. Gaydos will come forward, we will hear his statement before the committee. We appreciate your coming here today; you may proceed.

STATEMENT OF HON. JOSEPH M. GAYDOS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. GAYDOS. Mr. Chairman, I welcome the opportunity to submit testimony before this committee in support of legislation to assist America's textile and shoe industries in their economic struggle against foreign competition.

These industries sorely need help. They have been crippled domestically by increased sales of foreign made products. They cannot compete abroad because of strong, and unfair, trade restrictions erected by foreign governments to protect their own home markets.

The shoe industry, which had employed 200,000 workers, now loses 3,000 jobs for over 10 million pairs brought into this country. Last year we imported more than 200 million pairs of shoes, enough to cap-

ture 40 percent of our market. It is projected the percentage will reach 50 in the next year or so. In view of these statistics, it is not surprising to learn 59 American shoe plants closed their doors in 1969.

The situation is just as critical in the textile industry. Imports have a stranglehold on the domestic market. A leading domestic brand of men's shirts retail for \$8.98. You can buy an identical shirt of comparable quality, but made in South Korea and sold here, for \$2.98.

Textile imports last year reached a record 3.6 billion square yards and, for the first 2 months of 1970, they were running ahead of last year's pace. Again, it is not surprising to learn 18,000 textile and apparel workers lost their jobs between February and March of this year.

I realize the primary purpose of this hearing is to give assistance to these two industries. They need it. I hope it will not come too little and too late. But I would like to urge the committee to broaden the scope of these proceedings. Other industries also face a very real threat from increased foreign imports. I would like the committee to consider extending the protection sought for shoes and textiles to those industries.

THE STEEL PICTURE

I represent a steel district, the 20th Congressional District of Pennsylvania. It is in the heart of the Mon-Yough Valley of Allegheny County and is the home of the greatest concentration of industrial might in the world. Steel is its lifeblood and uncontrolled foreign imports are killing it.

I know the frustration now felt by the Congressmen and people in the shoe and textile industries. I felt it in 1968 when 18 million tons of foreign steel, a record total, hit the American market. I remember how quickly Congressmen from steel areas rushed to drop bills in the hopper, demanding mandated quotas on steel imports.

Instead, the State Department was permitted to negotiate a voluntary restraint arrangement with Japan and members of the European Coal and Steel Community. Under this arrangement, these two major exporters of steel to the United States allotted themselves a 12-million-ton slice of our steel market, plus a 5-percent increase in their tonnage for 1970 and 1971. They also agreed not to change their product mix too greatly.

However, both did change the mix. They changed it substantially, reaping a larger financial return in the process. And Japan exceeded her own imposed tonnage limit.

The Department of Commerce reports 1969 imports were slightly over the total 14-million-ton limit on all foreign steel. Incidentally, that total is the second highest amount of imports on record and accounted for 13.6 percent of the apparent steel consumption in the United States. The average value per ton jumped from \$110 to \$124, reflecting price hikes in foreign steel as well as their shift to higher value products shipped to this country.

In its report for January and February of this year, the Department of Commerce showed the value per ton had jumped to \$152 per ton, again reflecting prices boosts and additional changes in the product mix.

Japan also has informed the United States she has no intention of counting steel pipe shipped to the Trans-Atlantic Pipeline in Alaska in her 1970 import quota. She reasons the United States does not produce pipe in the required dimension and, therefore, she is not in

competition with us on that item. Such reasoning is not consistent with the terms of the voluntary arrangement. The fact Japan can circumvent that arrangement, with little or no protest from our Government, is indicative of what little protection the steel industry really has from any voluntary restraint arrangement.

The steel industry needs protection now! During the past year, the Tariff Commission, on four occasions, awarded financial assistance to steelworkers injured by imports. However, my worst fears are for the future. I see what is happening to the shoe, textile, glass, and other industries, and I don't want it to happen to steel. I want to see steel protected today before it is crippled tomorrow. The Federal Government practices preventive medicine in other fields, why not in industry?

The steel industry may appear healthy but that is only a reflection from its record high exports to Europe. When the current demand slackens, the steelworker may well follow his textile and shoe counterparts into the unemployment line.

Japan, in particular, has the men and machines to bring our steel industry to heel. She now has the world's largest steel producing facility and, it is estimated, within 5 years she will turn out 160 million tons of steel per year, surpassing the United States and Russia. She has led the world in shipbuilding for 14 years and last year more than half the total tonnage in the ship industry came from Japanese shipyards. She is third in the manufacture of automobiles and first in auto exports. She recently replaced the United States as the leading exporter to the Philippine Islands. Japan now is the third largest industrial power in the world and she grows stronger each year, protecting her markets and her workers along the way.

TRADE IMBALANCE

It seems obvious we must review and adjust our foreign trade policy to meet the conditions of today. We lost 48,000 jobs in the manufacture of TV sets, radios, and their component parts between 1966-68. More than 12.8 million TV sets will be made this year, an increase of only 350,000 over last year, but imported sets will increase by 1.3 million. This means more American jobs will be lost.

Ninety percent of the 12 million tape machines sold in the Nation last year were imports. Approximately 15.6 million tape recorders will be sold this year and 14.5 million will be foreign. The market for record players is estimated at 7 million sets in 1970 with 6.5 million coming from outside the United States. Ninety-eight percent of the domestic portable radio market already has been lost to imports.

There has been a tremendous change in our balance of trade since the end of World War II. There are those who claim we no longer have a surplus but a deficit of \$6 billion, which is hidden in the procedure used by the Department of Commerce to compute the import-export difference. There is no doubt, however, about the fantastic, almost unbelievable growth of imports in the past decade.

Our exports to Japan increased 141.1 percent in that time, but our imports rose 325.4 percent. Exports to West Germany went up 66.4 percent, imports 190.2 percent. Twenty percent of our total imports last year came from these two sources, but they took only 14.8 percent of our exports in return.

Imports from Common Market countries more than doubled our exports, 156.3 percent compared to 75.7 percent. Italy increased sales to us by 206.8 percent, while our sales to her climbed only 76.4 percent. The ratio of imports to exports with the United Kingdom found the United States on the short end, 113.5 percent to 57 percent. Our exports to all of Asia increased 97.4 percent, but their imports to us ballooned by 204.1 percent.

The same disastrous pattern is found in our dealings with other nations, their imports doubled our exports. Our total world trade showed an increase of 84.6 percent in exports. The increase in imports was 146 percent.

SUMMARY

The growth of imports has been relentless and successfully damaging! I see nothing to portend a change in the future. The alternative, I believe, is a firm trade policy legislated by the Congress, not voluntary restraints negotiated by the State Department.

I am not advocating a strict protectionist policy. That is neither feasible nor desirable. I want a free trade policy with the world but one that also is a fair trade policy for the United States. It has been one-sided for too long. Certain foreign nations must be made to realize that free wheeling trade with America is not consistent with their own rigid, restrictive practices and policies.

American workers cannot continue to compete against the low wages paid by foreign manufacturers. American industry cannot continue to compete against unfair and unreasonable trade barriers erected against it by foreign governments. Our Federal Government cannot continue to give financial assistance to every worker who loses his job to imports. The Congress cannot continue to avoid its responsibility to protect our industries and their workers.

The textile and shoe industries need protection immediately—hopefully this protection will spread like an umbrella to cover all American industry.

I thank you, Mr. Chairman, and the committee, for the opportunity to express my opinion on this crucial issue.

Mr. ULLMAN. We thank you for the information contained in the testimony you have presented. If there are no questions, we will proceed to the next witness.

Our next witness will be Mr. Hoff and Mr. Foner.

Would you please identify who is going to be the spokesman today?

Introduce yourself and your colleagues for the record. State for whom you are appearing and proceed as you see fit.

STATEMENTS OF CHARLES HOFF, ASSISTANT MANAGER, FURRIER JOINT COUNCIL OF NEW YORK; AND HENRY FONER, ON BEHALF OF FUR & LEATHER DEPARTMENT OF THE AMALGAMATED MEAT CUTTERS & BUTCHER WORKMEN OF NORTH AMERICA; AND RALPH SHAPIRO, COUNSEL; AND EUGENE DREISIN, FORMER PRESIDENT, AMERICAN FUR MERCHANTS COUNCIL

Mr. HOFF. On my extreme left is Mr. Ralph Shapiro, the union counsel. On my right is Mr. Eugene Dreisin, the former president of the American Fur Merchants' Council.

SUMMARY

1. Support for H.R. 3093 and 3094 to repeal embargo on Russian and Communist China fur skins.

The embargo against certain Russia and Communist China fur skins (ermine, fox, kolinsky, marten, mink, muskrat and weasel), which was enacted by the Trade Imports Act of 1951, has helped rather than hurt, Russia and Communist China and it has hurt, rather than helped, the workers, dealers, processors, and manufacturers in the American fur industry. Therefore, H.R. Nos. 3093 and 3094 to repeal this embargo should be immediately enacted.

2. An embargo on raw materials, such as fur skins, but not on the finished products made from the embargoed materials, greatly increases the demand for the banned materials and, therefore, helps the target countries.

The embargo on these skins has been self-defeating because it does not reach the import of finished garments made from the banned skins. Since there is no restriction upon the import into the United States of finished fur garments made from these embargoed skins, an enormous incentive for the purchase of these skins abroad and their manufacture abroad has been created. During 1969 alone, the value of imported fur garments increased 250%. This is attributable principally to the incentive created by the embargo.

3. The embargo on fur skins, unaccompanied by an embargo on fur garments made from these skins, destroys the jobs of American fur workers

The increase in imports on finished fur garments has been paralleled by a decrease in the job opportunities of American fur workers. During the past several years, about half of these jobs have been lost. In 1969 alone, there was a further decrease of about 15% in such employment opportunities.

4. The embargo hurts American industry and helps the target countries.

The embargo has thus caused enormous harm to American workers and to processors, dealers, and manufacturers in the industry and it has helped the target countries. Since the embargo has thus had an opposite effect to that which Congress intended when it enacted it, it should be immediately repealed, as provided by H.R. 3093 and 3094.

My name is Charles Hoff. I am the assistant manager of the Furriers Joint Council of New York, of 250 West 26th Street, New York City, an affiliate of the AMC & BW of North America, AFL-CIO. The council is the collective bargaining representative of the 10,000 fur manufacturing employees in the Greater New York area, that is, it represents those workers who manufacture fur skins into fur garments.

I am here to make an urgent plea for the enactment of House bills Nos. 3093 and 3094, which have been introduced by Congressman Gilbert. These bills would repeal the embargo of raw and dressed fur skins from Russia and Communist China, which are now contained in the Trade Agreement Extension Act of 1951. I am joined in this plea by the dealers, retailers, processors, and manufacturers in the American fur industry. The past president of the American Fur Merchants Association, Mr. Eugene Dreisin, is at my side in this hearing and, with your permission, will participate in answering any questions which you may have.

The embargo on Russian and Communist China skins is provided by part 5, subpart B (4), section 121.65 of schedule 1 of the Tariff Schedules (19 U.S.C. annotated 1202) of this act which forbids "the entry, or withdrawal from warehouse, for consumption of ermine, fox, kolinsky, marten, mink, muskrat, and weasel fur skins, raw or not dressed, or dressed, which are the product of the Union of Socialist Soviet Republics or of Communist China."

Experience with this embargo has proved that it is self-defeating and detrimental to our national interest. It has hurt us, not Russia or Com-

munist China. On the contrary, it has helped both of these countries and it is increasingly helping them, for it has actually encouraged the import of these seven banned skins at an accelerating rate, to the increasing detriment of all branches of the domestic fur industry, and especially to the fur manufacturing employees whom we represent, and to the detriment of the national economy as well.

This incredible result is due to the fact that the ban on the import of raw or dressed skins does not restrict the import of fur garments manufactured from these skins!

As a result, it is entirely legal for manufacturers and retailers either to buy these skins abroad and have them there manufactured into finished garments, or to buy finished garments made from these skins for import into the United States. Such garments have been increasingly featured and promoted by some of the most prominent stores in the New York area.

The same is true of other markets in the United States. The result has been loss of scarce jobs and livelihood for American fur workers, harm to domestic fur breeders, processors and dealers, and bankruptcies and failures of manufacturers of garments made from non-banned skins.

This harm is caused by the underlying fact that the embargo on these skins creates the illusion that it depresses their prices. Some people may, therefore, believe that the embargo is accomplishing its purpose. However, the contrary is the fact, for the seemingly lower price makes these skins artificially and, therefore, unfairly competitive with other skins. The increased and expanding volume of sales and rise of this practice, therefore, more than compensates for any lower unit price, assuming that there is indeed a lowered price. More importantly, also, the ban on the raw material, but not on the finished product, compels the manufacture of these skins into garments to be performed in other countries, where standards of wages, hours, sanitation, health, and other benefits are far below ours.

The finished imported garments are thus more than competitive with American products and they increasingly threaten the domestic industry. This is so despite the superior styling and workmanship of American garments and the greater productivity and skill of American workers. Moreover, the harm is not limited to them. The balance of payments of the Nation is adversely affected because the present situation encourages the expenditure of American dollars for labor abroad instead of as payment of wages to American workers.

The truth of this statement is reflected in the alarming 250-percent increase in the value of fur garments imported into the United States during 1969. According to the Department of Commerce these imports rose during that year from \$4,664,239 to \$11,538,309.

The increasing rate of import of such garments shows that any damage to the target countries is miniscular in comparison to the damage to the domestic economy, and that the effect of the embargo is the very opposite of what Congress intended it to be when it enacted it.

While the Department of Commerce figures do not break down into the type of skin from which these imported fur garments were made, it may be reasonably assumed that the bulk of this startling increase was attributable to the loophole in the embargo. America leads in styl-

ing and quality of fur garments, and American fur garments have worldwide prestige and recognition.

This is partially reflected in the fact that even the Papal Court has its fur garments made in this country. Thus the 2½-fold increase in fur imports which occurred during 1969 is explainable only by the incredible self-defeating incentives which the embargo creates for the increased purchase worldwide of garments made from these Russian and Chinese skins. It is thus apparent that the embargo helps—it does not hurt—these target countries.

Concomitantly with this surge of imports should be noted the tragic decline in employment opportunities for American fur workers. Not too long ago there were about 20,000 organized fur workers in the New York area. Now there are less than half of that. During 1969 employment in the New York fur industry and payrolls (after adjustment for wage increases negotiated that year) declined between 13 and 15 percent. This loss of employment opportunity is the more tragic because of the uniqueness of the skills of fur workers. Workers with lifetimes of experience in the highly trained craft requirements of the industry are being driven from it at great personal tragedy. These workers do not have the ability nor the youth to train for other skills and they are being dumped like trash, to the economic detriment of our city and Nation.

If the embargo served its intended purpose, some justification for these tragedies might exist. But since the embargo on these skins has had results which are the very opposite of those which were intended, it is plainly self-defeating. Since no possible justification for its continuance exists, it should be repealed, and the sooner the better.

I therefore respectfully urge you to act favorably and immediately upon Congressman Gilbert's bills Nos. 3093 and 3094 to repeal this ill-advised and harmful embargo.

Mr. VANIK (presiding). Mr. Foner, do you want to proceed?

STATEMENT OF HENRY FONER

Mr. FONER. I am Henry Foner, and I am president of the Joint Board Fur, Leather & Machine Workers Union at 109 West 26th Street, New York City. I appear here in behalf of the Fur & Leather Department of the Amalgamated Meat Cutters & Butcher Workmen of North America (AFL-CIO), which represents 25,000 fur and leather workers in the United States and Canada.

I appear for the purpose of registering our vigorous and unequivocal opposition to any of the bills before you which are intended to impose quotas on raw mink skins imported into the United States.

SUMMARY

1. The Union opposes the imposition of any quotas on the importation of raw mink skins into the U.S.

2. The Union's opposition to quotas on raw materials is not inconsistent with its support of quotas on finished products, such as shoes.

Raw materials (in this case, mink fur skins) furnish the source of work for all segments of the industry—in the handling, processing and manufacture of these skins into fur garments.

3. Import quotas on raw skins would have a disastrous effect on an industry already hard hit by economic crisis.

4. The economic health of the fur industry depends upon the health of all its component parts, and no segment can prosper while the others suffer.

5. With the exception of the mink ranchers, all segments of the industry—dealers, processors, manufacturers and labor—are united in their opposition to the imposition of quotas on raw mink skins.

Mr. FONER. I should like at the outset to clear up any confusion that may be caused by the fact that earlier in these hearings, a representative of our union testified in favor of quotas on shoe imports. This apparent contradiction is no contradiction at all. On the contrary, these two presentations point up the very heart of the union's case in this matter. The quotas we support are those on finished products—the kind of products Congressman Dent was talking about earlier—where the jobs and livelihoods of American workers are being eliminated by the competition of the substandard wages, hours, and working conditions of foreign labor.

In the case of raw skins, however, the imposition of import quotas would have precisely the opposite effect. Mr. Hoff has already demonstrated to you, in his testimony, the self-defeating nature of the embargoes on Russian and Chinese fur skins. Import quotas on raw skins are simply another form of an embargo—qualitatively, if not quantitatively—and would have precisely the same effect on the American labor force in the fur industry.

For us, that means fewer jobs and reduced earnings for workers engaged in the handling of skins, in the processing of skins, and in the manufacture of these skins into fur garments. And such an effect, coming at a time when our fur industry is already suffering from a most severe economic crisis, would be nothing short of disastrous.

The impact of that crisis is already becoming all too painfully obvious. Even as I testify here, my colleagues in New York are meeting with the officials of the New York Auction Co., one of the two major fur auction companies in the United States—which was referred to in earlier testimony—to work out the details of the liquidation of that 55-year-old landmark of the fur industry.

I must emphasize to this committee that a plentiful supply of raw fur skins is the "bread-and-butter" of the workers engaged in the various sectors of the fur industry. Restrictions on this supply not only reduce the materials on which our workers can perform their labors—but, as has been shown in the case of the embargo on Russian and Chinese furs, they also have the effect of encouraging the importation into this country of the finished garments, produced not by our labor force, but by workers in other countries under wage standards and working conditions far below those we have been able to achieve here.

I appeal to this committee not to add another devastating body blow to those already administered to this industry by the combined effects of economic adversity and the power pressures of well-meaning but unreasoning conservationist groups.

Finally, I would like to address myself to another seeming contradiction in this proceeding. I refer to the fact that the organized mink ranchers of this country, who share many of the problems that have beset the rest of the industry, have put forth the mink import quota as a panacea for these problems. We of the union certainly wish these ranchers no harm. In fact, we are dependent in large measure upon their economic well-being for our own. But we should like to point out to them in this forum, as we have in other discussions, that their sponsorship and continued support of the embargoes has

not spared them one whit from the problems that they admittedly face today. This industry and all its components—ranchers, dealers, processors, manufacturers, and workers—will literally stand together or fall together. No group within it can prosper while the others decline. The ranchers have recognized this fact by agreeing to participate with all other segments of the industry in a vast promotional effort aimed at reversing the decline and starting the road back to economic health. We of the union have welcomed this constructive approach to our common problems.

We sincerely hope that the ranchers will come to recognize that the same approach should be taken toward the question of import quotas on raw skins. The dealers, the processors, the manufacturers, and the representatives of labor are unanimous in their opposition to such quotas. Are all of us marching out of step to the true interests of the industry? The answer is obvious. And the answer to this committee must be equally obvious: Reject any effort to tack a mink import quota on the bills aimed at protecting the textile and shoe manufacturing industries and their workers.

I urge you to heed this most pressing request from an already beleaguered fur industry.

Thank you very much.

Mr. VANIK. Did you want to add anything to the statement, Mr. Dreisin?

STATEMENT OF EUGENE DREISIN

Mr. DREISIN. I am president of a brokerage concern dealing in imports and exports of skins into and from the United States. I would like to clarify the situation in respect to the embargo.

The embargo was instituted in 1951. It was instituted, incidentally, by the same mink ranchers who are here today asking for protection in respect to importation from Scandinavian countries and Canada. It was a protectionist measure.

The law at that time was passed without any public hearing. Besides mink it also embargoed six other furs, most of which had, in fact, nothing to do with the mink industry. They were not compatible. Nevertheless, they disappeared from the American market, and the result of this was a rather catastrophic situation in our trade, as Mr. Hoff explained to you before.

The theory behind the prohibition of the six other furs was apparently that anything that has hair on it is in competition with mink. But, in fact, these articles were not in competition.

The Russian embargo, in fact, is not the only restriction under which the American fur trade is laboring at the moment. The same ranchers in 1939 succeeded in establishing an import quota on silver foxes. This import quota, of course, didn't work, and the silver fox industry died.

We have today practically no production of silver foxes in this country. The same people are now pushing to reduce the importation of raw mink. I am afraid if they are successful and the importation of raw mink is reduced, then the rest of the industry will again shrink and we will probably die. Raw mink and raw furs in general are the prime raw material for our industry.

If you take away a free supply of this raw material, you diminish the scope of the workers engaged in the fur trade and by force you

create a situation where the importation of already made garments from Europe becomes an economic feasibility and much more practical.

I would, therefore, like to urge this committee that these bills that are in front of you to set up import quotas on mink should be rejected. They will do a lot of harm to everybody in the fur trade industry.

I would also like to support the enactment of Congressman Gilbert's bills, which would remove a law which has done a lot of harm to our trade and which, in fact, has not done anybody any good.

(The following was received by the committee:)

A STUDY OF "THE EMBARGO ON 7 SOVIET FURS" FOR THE AMERICAN FUR MERCHANTS' ASSOCIATION, INC.

INTRODUCTION

On June 16, 1951, President Truman signed the "Trade Agreements Extension Act of 1951".¹ This act extended the Tariff Act of 1930 as amended and extended, for a period of two years. Section Eleven of the Extension Act reads as follows:

The President shall, as soon as practicable, take such measures as may be necessary to prevent the importation of Ermine, Fox, Kolinsky, Marten, Mink, Muskrat and Weasel furs and skins, dressed or undressed, which are the product of the Union of Soviet Socialist Republics or of Communist China.²

BACKGROUND OF THE LEGISLATION

In 1951, a bill, H.R. 1612, was introduced into the House of Representatives to extend and amend the Trade Agreements Program. The House Committee on Ways and Means held hearings on the bill and then the House of Representatives passed the measure. *In this original version there was no mention of any restrictions on the importation of furs.*

The bill was then sent to the Senate. The Senate held hearings, made various changes, but again there was no mention of any ban on furs right up to the day of the final vote. Then, on May 23, 1951, immediately preceding the vote on the entire measure, Senator Joseph R. McCarthy (Rep.-Wisconsin) offered an amendment from the floor. The amendment required that imports during 1951-1952 of Mink, Silver Fox and Muskrat be limited to a quantity not to exceed 25 percent of domestic production during the preceding year.

Senator Walter F. George (Dem.-Georgia), Chairman of the Senate Finance Committee, warned Senator McCarthy that the House of Representatives probably would not accept this rider. He said, "I am willing to take it to conference, but I cannot guarantee to hold it in conference. I am quite sure the House would not consent to accept the amendment".³

The amendment was adopted by voice vote and then the entire measure was approved and sent to a House-Senate Conference Committee. It should be noted that the statement submitted by Senator McCarthy in support of his amendment was misleading in several respects. For example, he said, "Figures reveal our domestic production of mink has remained relatively static since 1947 at about two and one-third million pelts". This was to support his contention that the mink farmers were not able to make any money. As a matter of fact, United States production of ranch mink increased from 1,525,763 pelts in 1947 to 2,219,553 pelts in 1951, a gain of almost 50 percent!⁴ Since that time, the domestic

The Conference Committee met to reconcile the different versions of the extension act which had been passed in the Senate and the House. On May 28, production of ranch mink has grown to over seven million skins annually but still cannot satisfy the domestic demand and export requirements.⁵ 1951, the conferees reached final agreement on a mutually acceptable version. The McCarthy amendment had been eliminated, but in its place was substituted Section Eleven with its *total* ban of seven U.S.S.R. furs.

The next day, May 29, 1951, the Senate adopted the compromise version, voting on the measure as a single unit. On June 5, 1951, the House passed the com-

¹ Public Law 50—82d Congress: Chapter 141—1st Session: H.R. 1612.

² This study is concerned with the embargo only as applied to the U.S.S.R.

³ Congressional Record, Vol. 97, Pt. 4, May 23, 1951, p. 5720.

⁴ National Board of Fur Farm Organizations.

⁵ Tariff Commission release "escape clause Report on Mink Skins," September 17, 1959.

promise measure on a voice vote without discussion, and on June 6, 1951, President Truman signed the measure into law.

At no time was an opportunity extended to the fur industry, its allied industries, consumers or any other groups of citizens, to testify in favor or against the proposed legislation. The form in which the amendment was introduced and pushed through precluded such testimony.

On August 1, 1951, President Truman signed a proclamation giving effect to Section Eleven and on November 20, 1951, sent a letter to Secretary Snyder applying the embargo effective January 5, 1952. The Trade Agreements Act was extended again in 1953, 1954, 1955 and 1958.

In 1962 the Administrations Trade Extension Act HR 9900, in its original form, provided for the elimination of Section Eleven, but after the bill emerged from Committee and in its final form, as HR 11970, the Embargo was reinstated and is still in force today.

Why was Section Eleven made part of our trade policy?

We must assume that the prohibition against the fur imports was apparently intended as a measure of protection for domestic fur producers. If it was intended as a general step of economic warfare against the U.S.S.R., would it not have prohibited all imports from the U.S.S.R. rather than an arbitrary few fur items?

SUMMARY OF PERTINENT FACTS AND STATISTICS

How important were the embargoed furs? What part did they play in our total trade with the U.S.S.R.? What share of our total fur imports did the seven embargoed furs from the U.S.S.R. represent? This section provides in summary form the answer to these and similar questions. A complete set of statistical tables appears in the appendix of this study.

Our annual imports of the seven embargoed furs from the U.S.S.R. averaged \$7.1 Million for the five years 1947-1951. They reached a peak of \$9.1 Million in 1948 and a low of \$5.7 Million in 1949. Total fur imports from the U.S.S.R. during the same period averaged \$30.5 Million per year with a high of \$43.3 Million and a low of \$21.1 Million. Total imports of all commodities from the U.S.S.R. varied from \$86.8 Million to \$27.5 Million, and averaged \$53.8 Million during the same period. These figures, with the exception of 1951, were all available to Congress when the law was passed. We see in Table 1 that imports of the embargoed furs represented only a minor part of total fur imports from the U.S.S.R. and of our total imports of all commodities from that country.

TABLE 1.—U.S. IMPORTS OF 7 U.S.S.R. FURS, ALL U.S.S.R. FURS, AND ALL U.S.S.R. COMMODITIES (ANNUAL AVERAGES 1947-51)

	Value (millions)	Percentage of total
All imports from the U.S.S.R.	\$53.8	100.0
All fur imports from the U.S.S.R.	30.5	57.0
Imports of 7 furs from the U.S.S.R.	7.1	13.2

Source: U.S. Department of Commerce, Bureau of the Census.

While the banned furs represented only a part of fur imports from the U.S.S.R., they represented even a smaller part of total fur imports from all sources. During the five years 1947-1951, total imports of fur from all sources averaged \$124.8 million per year. We thus see that the U.S.S.R. supplied 43.1% of the total fur imports and that the seven embargoed U.S.S.R. furs accounted for only 5.7% of the total fur imports.

TABLE 2.—U.S. IMPORTS OF 7 FURS FROM THE U.S.S.R. AND TOTAL FUR IMPORTS (ANNUAL AVERAGES 1947-51)

	Value (millions)	Percentage of total
Imports of all furs from all sources.	\$124.8	100.0
Imports of 7 furs from the U.S.S.R.	7.1	5.7

Source: U.S. Department of Commerce, Bureau of the Census.

Apart from the fact that the importation of the seven furs amounted to only 5.7% of our total imports of furs, the prohibited articles were in fact hardly ever in competition with their domestic counterparts, and their exclusion from the domestic market never had a logical economic basis. This may be seen if we analyze each of the seven furs in relation to the United States production.

1. Kolinsky: U.S.A. produces none.

2. Weasels: U.S.A. produces none. (U.S.S.R. also produces none.)

3. Martens: At the time of prohibition and up to the present time, United States production was and is negligible.

4. Ermines: American Ermine in the trade are called "Weasels". At the time of prohibition and up to the present time, United States production was and is negligible.

5. Foxes: (a) Red Foxes, Grey Foxes and Cross-Foxes were at the time of prohibition and are up to the present time, not in great demand and trapping of these furs in the United States for commercial purposes was and is up to the present time neglected. (b) White Foxes and Blue Foxes are not produced in the United States except a few thousand in Alaska. (c) Silver Foxes have been out of fashion and very few are raised in the United States or in any other country.

It is interesting to point out that the American Silver Fox industry at one time was very large and the annual production of 350,000 skins a year was reached in 1939.⁶

Silver Foxes were protected by a duty of 37% and in 1939 the Fox ranchers succeeded in having Congress impose an import quota which limited the importation of foreign Silver Foxes to 100,000 skins each year. This import quota and duty are still on the books today and what is the result?

(a) In 1965 importation of Silver Foxes was down to practically zero.⁷

(b) In 1965 American yearly production of Silver Foxes was down to a few thousand skins.⁸

(c) In 1965 American consumption of Silver Foxes was down to zero.

It is clear that neither an embargo against the U.S.S.R. nor a general protective tariff against all other countries has helped the domestic Silver Fox industry. In the fur industry, fashion is the primary determining factor, and any restrictions in the normal supply of any given fur, drives the manufacturing and dealing segments of our trade into other fields, and the end result is almost always to the detriment of those who were seeking protection in the first place.

6. Muskrats: Of the seven embargoed articles, Muskrats is the only one where there appeared to be any area of competition. In 1951, the United States was producing 7,919,969⁹ pelts per year for an estimated value of \$12,000,000. The U.S.S.R. exported about 2.5 million pelts yearly and 1,522,458 pelts were imported into the United States for a value of \$2,350,000.¹⁰ The average annual import of the U.S.S.R. Muskrats into the United States in 1947-1951 amounted to \$2,430,000. In other words, the U.S.S.R. import of Muskrats into the United States amounted to about 20% of the domestic production.

It is interesting to note that the United States, during the same period, exported an average of 3,946,704 Muskrat skins for the dollar equivalent of \$6,436,151.¹⁰ In other words, we exported more than 50% of our domestic production.

After the imposition of the embargo, domestic production and price of Muskrats steadily declined and by 1960 it was down to 5,077,501 Muskrats produced in the United States for an estimated value of \$4,250,000. The latest figures supplied by the Fish & Wildlife Service of the Department of the Interior show that the catch in 1965 amounted to 4,305,096 skins or a decline of almost 50%. According to the figures supplied by the dressing factories, there were dressed and consumed in the United States in 1966 only 228,067 skins, and the consumer demand for Muskrats in the United States has almost disappeared.

A similar situation developed as with Silver Foxes. Demand for Muskrats in the American market declined and many American dealers and manufacturers stopped handling and promoting this item. The American trappers, collectors and dealers became vitally interested in the European market where trading remained free and fashion demand for this article continued strong.

Because the embargo disturbed the normal international marketing structure, the losers turned out to be the American trappers whose interests the Mink ranchers seemed to be protecting.

⁶ Department of the Interior Fish and Wildlife Service.

⁷ U.S. Department of Commerce, Bureau of the Census.

⁸ Department of the Interior Fish and Wildlife Service.

⁹ Department of the Interior Fish and Wildlife Service.

¹⁰ U.S. Department of Commerce, Bureau of the Census.

7. Mink: The United States is the largest producer of wild and ranch Mink in the world, and the U.S.S.R. is one of the smaller producers. At the time of the imposition of the embargo in 1951, United States production of ranch Mink was 2,219,553 pelts for an equivalent dollar value of \$38,519,000.¹¹ The U.S.S.R. production at that time was estimated at about 100,000 pelts (including wild and ranch raised), of which 11,564¹² skins were imported into the United States with a dollar value of \$220,096. For the period of 1947-1951, an average of \$296,000 of the U.S.S.R. Mink was imported each year against an American production of over \$38,000,000 and it is difficult to see how this minute importation of the U.S.S.R. Minks constituted a threat to the American Mink ranchers. It is interesting to note that in 1951 the United States imports of Mink from all sources amounted to \$17,220,000.

Table 3

U.S. mink production in 1951-----	\$38, 519, 000
General mink imports in 1951-----	17, 220, 000
U.S.S.R. mink imports in 1951-----	220, 096

In other words, imports of U.S.S.R. Mink at the time of imposition of the embargo amounted to about 0.57% of domestic production and about 1.3% of the over-all Mink imports.

SUMMARY

Ermine, Kolinsky, Martens, Weasels, Foxes: These five furs under present economic conditions are either not produced in this country at all, or, produced in small, insignificant quantities.

The lifting of the embargo cannot possibly do harm to something that does not exist.

Muskrats: This is the only article where some form of competition existed, despite the so-called protection of the present law, and it has suffered badly.

There has been a decline in the catch of United States Muskrats of almost 50% and United States consumption of this article has declined to an insignificant quantity. *The embargo makes even less sense now than it did when originally imposed.*

Mink: Imports of this article at the time of imposition of the embargo amounted to little over 0.5% of the domestic production, and by no flight of the imagination could it have been considered as a competition for our domestic producers.

The United States production of Mink in 1965-1966 reached 8.3 Million¹³ skins and production in the rest of the world reached 10.8 Million¹⁴ skins (excluding the U.S.S.R.). In other words, we have a free world production of about 19 Million Mink which can be and is freely imported and exported into and out of the United States and all other free trading countries. U.S.S.R. Mink export was about 1.7 Million¹⁵ during the same period. This means that the U.S.S.R.'s export today is below or about 8% of the world's Mink production. Because of the embargo, all U.S.S.R. Minks are sold and consumed in Europe and Canada. If the embargo is lifted, only part of the U.S.S.R. Mink can come to this country because there is no reason why Europe and Canada should suddenly stop using U.S.S.R. Mink, and therefore lifting of the embargo at worst can have only a marginal effect.

The following seventeen countries are today Mink producers: United States, Denmark, Norway, Sweden, Finland, Canada, U.S.S.R., Netherland, England, West Germany, East Germany, France, Belgium, Poland, Spain, Yugoslavia, Czechoslovakia.

We can export our Mink to all and import from all of the aforementioned countries . . . except Russia. Why Russian Minks are of special danger to the American Mink industry, nobody has ever been able to explain.

American Mink producers who appear to be the prime instigators of the embargo are perfectly willing to sell, and have sold, to practically every country in the world, including the U.S.S.R., breeding stock of American Mink; they

¹¹ National Board of Fur Farm Organizations and Auction Company Sales Reports.

¹² U.S. Department of Commerce, Bureau of the Census.

¹³ National Board of Fur Farm Organizations.

¹⁴ Based on official figures supplied by:

(a) National Board of Fur Farm Organizations.

(b) Scandinavian Fur Farm Organizations.

(c) Canadian Department of Agriculture, Fur Section.

(d) Public auction and private offerings.

¹⁵ Compiled by V. O. Sojuzpushnina and verified by public auction catalogues and free sales.

are nevertheless strongly opposed to the importation of the offsprings. This is inconsistent and improper from a fair business point, and appears highly unethical.

ECONOMIC EFFECTS OF THE EMBARGO

The immediate result of the embargo has been, of course, to eliminate the import of the embargoed furs from the U.S.S.R., but the long run economic effects on our trade have been far greater than that of simply cutting off the importation of the seven articles.

Although the embargo covered only a small part of the overall fur imports, their unavailability in the New York market generally contributed to the decline in the overall fur imports and exports, and New York started losing its importance as an International distribution center of world furs.

This has resulted in a shrinkage of total business in the New York market which adversely affects most segments of the industry.

The imposed embargo of the seven articles, although small in dollars and cents, had a great psychological effect on international producers and traders and contributed to the shift of the world fur market from New York to London. The fur trade is basically an international trade and any restrictions on free exchange of goods works economically against the country which imposes such restrictions. One of the characteristics of a world market is that there should always be a wide and full selection of the world's furs available. Buyers from Canada, South America and Europe prefer to buy in such a market and therefore have now largely shifted their patronage to London. This means a loss of income and commissions to dealers, brokers, and all workers in New York City who have made, in the past, this City the leading raw fur center of the world. It also means a loss of business to shipping, insurance and financial firms which provide the necessary services for the international fur trade.

The irony of this situation is that our imports of manufactured furs have been quite substantial. Many of the imported garments are manufactured from the embargoed furs. This is perfectly legal and within the law, but very unfair to the American worker.

It should be emphasized that the narrowing of the variety of furs that can be offered is felt right through the domestic industry all over the United States from the trapper up to the retail level. Restrictions on the supply of raw fur eventually means restrictions on the amount of business the industry can do.

In support of the above, we submit the following tables of statistics:

A. Dressing and dyeing firms 1951, 50 firms; Dressing and dyeing firms 1966, 25 firms.¹⁶ A decline of 50%.

B. Manufacturing firms in 1951, 2,112; manufacturing firms in 1966, 1,261.¹⁷ A decline of 40%

C. Workers employed in manufacturing 1951, 13,600; Workers employed in manufacturing 1966, 8,700.¹⁸ A decline of 36%.

American observers outside the fur industry have commented on the narrow purpose of Section Eleven and the manner of passage. Harry S. Radcliffe, Executive Vice-President of the National Council of American Importers, declared, "It was particularly disturbing to have a pressure group using the device of anti-Communism to obtain tariff protection for producers of special types of furs".¹⁹ The question of fairness also cannot be ignored. The fur industry, the group most vitally affected by the ban, was never given an opportunity to testify against the proposed legislation. It is primarily an industry of small firms unable to defend itself adequately.

Finally, there is the effect of the embargo on the consumer. If the American public does not wish to purchase the U.S.S.R. furs, the embargo is superfluous. As a matter of law, all furs must be labeled to show the country of origin. But, as a special House Committee on Small Business pointed out in opposing a ban on fur imports in January, 1951, the present type of legislation deprives the consumer of a free choice.²⁰

CONCLUSIONS

The background of the legislation, the analysis of the embargoed furs, the economic effects of the embargo and other implications lead to the following conclusions:

¹⁶ Fur Dressers Guild Inc., Furriers Joint Council of N.Y.

¹⁷ Compiled by Fur Age Weekly.

¹⁸ N.Y. State, Dept. of Labor, Furriers Joint Council of N.Y.

¹⁹ The New York Times, December 7, 1951, pg. 29.

²⁰ The New York Times, January 4, 1951, pg. 40.

1. There was no economic reason in 1951 to enact this embargo and there is still less economic reason to keep it on the books.

2. This embargo has done a lot of harm to a lot of people in our trade and has done no good to anybody at all.

3. The embargo has aggravated our economic relationship with Russia far in excess of its overall importance.

4. Lifting of the embargo would certainly improve the trade picture with the U.S.S.R. and remove a strong irritant.

It would certainly benefit most segments of the American fur trade which might again start playing an important role as a major distributor of world's fur.

It would certainly stimulate our domestic manufacturing industry and put it on equal footing with other countries.

Based on the foregoing, we strongly urge the removal of the embargo.

STATISTICAL APPENDIX

[All figures in thousands of dollars]

	1947	1948	1949	1950	1951	1952	1953	1954
Imports of all furs from U.S.S.R.....	43,308	40,522	25,213	21,061	22,515	12,304	7,068	8,177
Total imports from U.S.S.R....	77,101	86,824	39,140	38,242	27,516	16,742	10,800	11,800
Total imports of furs from all sources.....	127,039	164,479	108,960	109,309	113,995	78,656	73,026	72,004
Imports of 7 furs from U.S.S.R.:								
Ermine.....	753	741	405	674	871			
Fox.....	2,330	1,621	361	437	12			
Kolinsky.....	1,092	1,771	784	1,456	1,612			
Marten.....	1,557	1,319	994	1,142	1,624			
Mink.....	310	200	269	504	200			
Muskrat.....	1,624	3,353	2,882	1,941	2,351			
Weasel.....	43	57	10	70	10			
Total.....	7,709	9,062	5,705	6,224	6,680			

Source: U.S. Department of Commerce, Bureau of the Census.

Mr. VANIK. Are there any questions?

Mr. BYRNES. On the imported garments that are coming in, can they be identified as made of embargoed furs; namely, from Red China or from the Soviet Union?

Mr. HOFF. Yes, Congressman; they can. The Federal Trade Commission regulation says that any fur product has to have a tag denoting the country of origin. So while they may not have the identity of where it is manufactured, it does have the origin of the fur.

Mr. BYRNES. I see. When they come in, do they come in under the column 2 duty which would be 50 percent on the item if the garment came from Russia, or 14 percent if it came from some other country?

Mr. HOFF. I spent some time at the Commerce Department yesterday. The information we gathered was that all of the fur products come into the 14-percent category. This is the duty placed on the fur garment.

Mr. BYRNES. The garments themselves are coming from, let's say, England or some other country, even though they are made of furs that originated in Russia?

Mr. HOFF. Or China. That is correct. That has been the problem that we have had for almost 20 years, that the American worker and the American manufacturer cannot be competitive because he is not allowed to make the product that is embargoed.

Mr. BYRNES. I think you have called to the attention of the committee a situation that certainly does require attention. It is pointless to establish an embargo if you leave another method of entry for the same item that you have embargoed.

Mr. HOFF. That is correct, Congressman.

If I may, the bill that has been proposed by the fur farmer on the import quota also leaves the same loophole, which is another problem that has to be dealt with.

Mr. BYRNES. I think you do have to deal with the aspect of the garment, there is no question about that.

I will address this to Mr. Foner.

As far as you people are concerned, it doesn't make too much difference whether you are working on mink skins that come in from Scandinavia or from Minnesota or Wisconsin, does it? There is no great concern to them one way or another as long as they have the skins to work on?

Mr. FONER. Exactly; as long as they have the skins to work on. But the skins are the things they have to work on. When you restrict that supply, you are setting, unfortunately, limitations on the kind of work they can do. Other factors have created so many limitations that this is just another blow in that respect.

Mr. BYRNES. But if there is an orderly market of some kind, just because you limit the proportion of the market that can be supplied by, let us say, Scandinavian skins, there is still some encouragement for American ranchers to supply the rest of the market and some encouragement for them to create a market.

Who really created the market for mink skins, mink jackets and the fancy minks in this country? Wasn't it the ranchers themselves through their operations?

Mr. FONER. It was not exclusively that at all, Congressman. The operation of promotion certainly made a contribution, but there have been other vast promotional efforts that have been carried out by other sectors of the industry and they have made their contribution toward creating this demand.

Mr. BYRNES. I would like to be advised as to the contribution made by other segments, in terms of money spent for the development of the market. I think it would be interesting for our record.

Mr. HOFF. If I may, I would like to go into this a little further on your question. In 1955, the fur union, when it negotiated a contract with the fur employers, with the manufacturing employers, set up what was called a fur label authority. That is attached to every garment made by American fur workers. The label says that it is made under fair labor standards.

We sold that label to the American fur manufacturer. In turn, we created a promotion fund that has been controlled since 1955 by an organization called the Fur Information and Fashion Council. This is an industry organization.

In the main, the contributions are made by American fur manufacturers, but in addition, the dealers contribute, the dresses have contributed, the auction companies have contributed, and every year approximately \$150,000 has been spent for promoting American-made furs, including mink skins. Mink happens to be 80 percent of the American fur industry in this country. So in addition to the organizations of the

fur farmers, the other agencies in the industry have just as well promoted American furs, and in particular mink, in order to get the American consumer to buy that product.

Mr. BYRNES. I would be interested if you could supply for the record some of the activities that have been carried on by this operation for the advancement of the fur industry in this country. I think it would be very interesting to the committee.

Mr. HOFF. We will send you and Mr. Gilbert letters with the information you are seeking.

Mr. BYRNES. Thank you.

Mr. GILBERT (presiding). I would suggest you send it to the chairman of the committee and to the members of the committee, so it can be submitted for the record.

(The following was received for the record:)

FURRIERS JOINT COUNCIL OF NEW YORK,
New York, N.Y., June 18, 1970.

HON. WILBUR MILLS,
Chairman, House Ways and Means Committee,
House Office Building, Washington, D.C.

DEAR CONGRESSMAN MILLS: Pursuant to the suggestion of Congressman John W. Byrnes, of Wisconsin, contained at p. 3369 of the stenographic minutes of the hearing held before your Committee on June 9, 1970, we are enclosing a summary of the highlights of the Fur Information and Fashion Council (FIFC) since its formation in 1958. We also enclose samples (out of hundreds) of materials which the FIFC has issued to promote the sale of American-made fur garments. (This material has been retained in the Committee files.) The FIFC is an industry-wide cooperative effort, supported by all sections of the American fur industry, to promote the sale of its products. It operates on a budget of about \$150,000 annually, which is contributed by Labor and Management and various other sections of the industry. Congressman Byrnes thought that this material "would be very interesting to the Committee."

We have asked the Department of Commerce to determine the availability of wage data concerning European fur workers. These data are not presently available, but we know that the wages paid to American workers are about three times as high as the wages paid to the next highest European fur workers. If the Department of Commerce can obtain more exact information, we will submit it to your Committee.

We wish to take this occasion once more respectfully to urge the repeal of the embargo on Russian and Communist China fur skins because the embargo is detrimental to American interests and actually helps the target countries. The reasons for this were developed in the testimony of Mr. Charles Hoff before your Committee and we trust that the Committee will report favorably upon Congress-

Respectfully submitted,

OSCAR WARD, *Assistant-Manager.*

HIGHLIGHTS OF PROMOTIONAL PROGRAM CONDUCTED BY THE FUR INFORMATION AND FASHION COUNCIL 1958-1970

The Fur Information and Fashion Council promotion program was formulated following evaluation of an early research study conducted in 1957 by Dr. Ernest Dichter. The study showed, among other things, that the fur industry at that stage was in reality a one-fur market—mink. It was also reported that young American women were fairly disinterested in furs and that only a few specific pelts had any meaning, i.e. beaver, Persian lamb, etc.

Close scrutiny of the Dichter report resulted in a series of public relations recommendations made to the industry by Ruder & Finn, Inc. focusing on the need for diversification of furs, an infusion of design creativity, emphasis on youthful styling and an education program for retailers that would attempt to alter their merchandising and sales promotion methods used in the majority of fur departments across the country.

The following is a list in brief of the promotion activities undertaken by FIFC during the 12 years since the original campaign strategy was formulated. The objectives of the campaign are listed below :

- 1) To encourage awareness of a wide variety of furs.
- 2) To work with designers, in and out of the fur market, to achieve contemporary, youthful styling of diversified furs.
- 3) To convince buyers, merchandise managers and top retail store management of new excitement in fur fashion.
- 4) To develop maximum publicity for these furs in consumer media—news-papers, magazines, radio, television.
- 5) To work with independent and specialty retailers in providing advertising, display and promotional assistance stressing the new looks in fur.
- 6) To inform the entire membership of the fur trade on the progress of this program and to work with individual member groups *within* the fur market to assure support.
- 7) To develop effective sales training program for fur sales personnel in retail stores.
- 8) To effectively communicate to women's clubs, college students and home economists the role of fur in a fashion wardrobe.

These are the activities that were carried out to accomplish the objectives :

1. *Creation of the Young Designers Collection* in 1958—a group of furs created by outstanding ready-to-wear designers noted for their youthful approach to sportswear, day wear and evening wear. The Young Designers Collection featured furs in the widest possible variety of skins, hitherto unpublicized. These collections were shown to the press, toured to retail stores and merchandised within the fur industry itself. The first Young Designers Collection brought forth an avalanche of press coverage in the United States and led the FIFC to subsequent designer collections for the next 5 years. These included European collections, International collections, American Designer collections, etc. It was this effort that gave impetus to diversification of the fur industry and ultimately led to the wide spread enthusiasm for the so-called "Fun Furs."

2. *Implementation of the industry's first national sales training program* involving the writing and production of a definitive sales training manual "How to Sell Fabulous Furs." Publication and distribution of this manual was backed up with a series of sales training clinics for retail personnel held throughout the country.

3. *Promotional assistance for retailers* in the form of advertising layout suggestions, direct mail recommendations, photographs for publicity purposes, window displays, sketches and suggestions for interior store displays. This retailer assistance program was in force for 10 years and was warmly received by thousands of independent furriers from coast to coast.

4. *Extensive work in the field of television*—involving the production of films for local women's shows in major cities and the development of lavish production numbers for national prime time programs such as The Red Skelton Show, the Dean Martin Show, Merv Griffin and Johnny Carson.

5. *The establishment of a film library* which circulated FIFC productions titled "Fantasy in Furs" (a film on how furs are made) and "Projections 68" (a fashion feature) which was awarded the silver medal prize from the Eleventh Annual International Film and Television Festival of New York.

6. *The establishment of a June Market Week* tradition for the past 10 years wherein the FIFC presents to retail fur buyers a survey fashion show highlighting the best looks of each season. The tradition culminated in 1969 when 4000 buyers witnessed a Broadway musical entertainment produced by FIFC called "Constellations," featuring original choreography, music, lyrics and production segments.

7. *A pioneering attempt to provide independent furriers with a professionally produced television commercial on furs.* This was done by FIFC several years ago with unusually successful results in making available to the fur industry the talents of first-rate professional television commercial makers.

8. *An extensive college promotion program* has been in force over the years bringing youthfully styled furs to the attention of young college women in major universities. This program has taken many forms including presentation of fashion shows, research programs among the students, "try-on" sessions to bring them close to furs and wide spread publicity in campus newspapers and on local radio and television.

9. *A massive press information program* resulting in heavy editorial attention to furs. The diversified fur story emanating from FIFC has been covered by hundreds of major metropolitan newspapers, wire services, national magazines, radio and television.

10. *Production of an exquisite miniaturized art exhibit* based on the theme "The Timeless Art of Furs." This was created as a unique traveling window display for department stores and retail furriers.

11. *Sponsorship and implementation of a fur industry conference* held as a two-day event in New York in 1967. Called "Tomorrow's Fur Industry: A Blueprint for Progress," the conference attracted a cross section of fur industry leaders who considered the problems and opportunities of the future in a series of open meetings and small workshop sessions.

12. *A consumer education program* involving the publication of a series of booklets and film strips for use among women's groups, high schools and colleges.

13. *The production of a slide presentation for retail store management* produced in cooperation with Fairchild Productions. The purpose of this project was to attempt to restructure the thinking of department store executives regarding the merchandising, display and sales promotions given to their fur departments.

14. *Production of a fashion film for motion picture theater distribution.* Titled "Futura" the film is an artistically photographed panorama of fur fashions created to interest consumers. It is intended for television and women's club distribution in addition to theaters.

These are only the highlights of the FIFC 12 year history. Each of the projects described above represents a milestone activity. Underlining all of these major undertakings has been the day in, day out information program constantly going forward to editors, consumers, retailers, et al. The program has been a highly successful one which has operated on an extremely modest budget and can truly be said to have accomplished its original objectives.

Mr. BYRNES. That is all, Mr. Chairman.

Mr. GILBERT. May I welcome the gentlemen here who are all from the State of New York.

May I say to Mr. Byrnes and other members of the committee that I know the very serious problem that the fur worker has in the industry today. There is rampant unemployment in the industry. I have many thousands of fur workers residing in my district. They have most vividly brought it to my attention. Being very interested in the industry, all facets of it, because, after all, what we are interested in is a healthy industry, I think that the manufacturers, the union, and the ranchers certainly have made a concerted effort in the area of the interest of the American public in the purchase of U.S. furs and the advantages of purchasing furs made in the United States.

A problem which Congressman Byrnes alluded to is one that concerns me and was one of the factors and motivating reasons that I had when introducing the bill you gentlemen referred to. It was that we live in a dual standard and more or less in a hypocritical type of world, where we place an embargo upon a raw skin and yet through a back door method the same skin comes into our country in the form of a garment.

This, of course, works to the disadvantage not only of the American worker, but also the disadvantage of the American rancher for the simple reason that the very skin that they are trying to keep out of the country does reach the country, so that the rancher gets no advantage, and certainly it works to the disadvantage of the American worker who doesn't have an opportunity to work on the skin.

I think my bill would go a long way toward alleviating this situation. But, nevertheless, I would ask you gentlemen who are experts in the area—you deal with the workers and you deal with the problems

on a daily basis—what recommendations do you have in this area that would help the American worker and help the American rancher?

Mr. FONER. Some of the steps that we are seeking to take were mentioned in my testimony. We are seeking for the first time to bring the entire industry together and to find meaningful ways to raise the kinds of revenue that will be required to solve the type of problems here. I am referring to an internal organization. The ranchers are involved in that.

This new organization is called the Council of American Fur Organizations and represents literally everybody in the industry. We are seeking to establish meaningful methods of raising the kind of revenue that will be required to solve the problem. What we have tried to tell our friends from the mink ranching section of the industry—and they really are just one section of the industry and not the entire industry—is that their fate is linked with ours.

We will work with them on trying to solve the overall problems of the industry, but we submit to them respectfully that it does not lie in the direction of import quotas on raw mink skins. Their problems are industry problems. They will only be solved when the entire industry prospers.

If we can get this point across to them, I think that there will be a basis laid for a genuine cooperation between the ranchers, the dealers, the processors, the union. Our hands are literally outstretched in an effort to achieve this kind of industrywide cooperation.

Mr. GILBERT. You have no opposition to the American rancher, as I understand your testimony. You would like to see them as a very healthy and growing industry?

Mr. FONER. That is right. The healthier they are, the healthier we are.

Mr. GILBERT. One hand washes the other, in other words.

Mr. FONER. We think it is misguided to believe that the solution lies along these lines.

Mr. GILBERT. What would you say your unemployment rate is in the union compared to 5 years ago, say, unemployment?

Mr. FONER. Compared to 5 years ago, I would say it has tripled.

Mr. HOFF. We have had a lot of shrinkage in the industry over the past 5 years. As a matter of fact, in 1970 we retired officially over 300 workers in our industry, which is the largest amount we ever retired. One of the main reasons why so many retired at one time is there was lack of employment.

We have an industry of old workers. Their age averages about 59 years. As a matter of fact, for the information of the gentlemen, the Federal Department of Labor has seen fit to give us an apprenticeship training program in our industry, and when we have a lack of work we can't induce young people to come in.

At least one part of the program that was mentioned at this table in the hearing today we think the American fur industry has an opportunity to thrive and get young people to come in and be trained to become skilled workers.

Mr. GILBERT. These furs that are under embargo, what countries do they come from when coming in in the form of a finished product?

Mr. HOFF. Canada, Italy, Germany, France, Greece, practically every country of Europe.

Mr. GILBERT. Could you provide for the record what the labor situation is in these countries with respect to employment and unemployment.

Mr. HOFF. We have been trying through the Department of Labor and their Bureau of Labor Statistics, and the Commerce Department, to get an exact figure of labor costs of fur workers and labor wages for workers in those countries. So far we have not been successful.

We do know, for example, that in West Germany, which has a very high employment rate and a very high wage rate for furriers, the fur worker receives a maximum of \$1.50 an hour in that country.

In our country, the average fur worker receives close to \$5 an hour.

Mr. GILBERT. That is the hourly wage you are discussing. I am talking about numbers and percentages of employment. Has employment increased or decreased in these countries as compared to the fact that you stated, that we have had a decrease in employment?

Mr. HOFF. In a country like Germany, for example, and I was there last year during the fur fair that is held once a year, we found that they import workers from other European countries because they have a shortage of skilled labor. In our own country, unfortunately, there are thousands of American fur workers who today do not have a job.

Mr. GILBERT. As I understand, in essence, while we are trying to place an embargo on skins that come in from Communist countries, on the other hand, it has an adverse effect because of the severe unemployment problem that is created in our country because of the fact that a finished garment with the skin that is under embargo can come into this country.

Mr. HOFF. You are correct.

Mr. DREISIN. I would like to add that we have a situation in the world today where the fur industry in practically every European country is a thriving business. It is a good business. Normal profits are made and the employment rate is normal. The main reason for it is that they have no restrictions at all—no country in Europe has any restrictions—on the free importation of raw skins.

We are the only country in the world that has restrictions. Therefore, the European countries have free and open supply of the raw product and, therefore, they are very competitive in any competition with us. There are certain items which we cannot produce in this country, but are produced there.

It has nothing to do with the labor scale. It is simply not available for our workers in this country to work it, and, therefore, we import the ready product. If you take off the embargo, I am sure the situation would right itself and we would be able to compete with the Europeans.

Our skills here are at least as good and highly developed as theirs. We have nothing to be ashamed of in this respect.

Mr. GILBERT. It all stems back to the fact that raw skins can get into these countries and be manufactured into garments, the very raw skin which cannot come into this country. Then it can come into this country as a finished product.

Mr. DREISIN. That is quite right.

Mr. GILBERT. Thank you very much.

Mr. HOFF. Thank you.

Mr. GILBERT. The next witness is Mr. Arthur MacArthur of Janesville, Wis.

Mr. VANIK (presiding). Can you tell the committee what your organization is, Mr. MacArthur, if you represent a group?

STATEMENT OF ARTHUR R. MacARTHUR, JANESVILLE, WIS.

Mr. MacARTHUR. Mr. Chairman and gentlemen:

I represent my own business, which is mink ranching.

My name is Arthur MacArthur and I am from Janesville, Wis.

First of all, I would like to comment that we are all pleased to hear the people from the union are interested in our welfare because we certainly are interested in theirs. We have mutual interests and mutual problems. It is our feeling that one of us must be wrong in taking the opposite positions and we feel it is to their benefit to have a healthy American mink industry.

In the past 18 months we have lost 75 percent of our mink ranchers in America. Apparently by next fall we will lose at least 50 percent of the remaining 25 percent, which you can see is a terrible mortality rate in any industry.

MacArthur Farms produces 50,000 mink pelts per year, the largest single production of any unit in the United States. For your comparison the Scandinavian countries contain ranches in size up to 400,000 pelt production per year.

MacArthur Farms, which was established by me, has been in operation since 1928 and throughout the years has produced various agricultural crops such as grain, cattle, hogs, turkeys, and great numbers of pheasants. In 1940 Mrs. MacArthur, who was working in a doctor's office as a nurse, bought 10 minks which developed in both of us a great interest in this specie of animal. Back in those days there were no vaccines available for the many diseases inherent to mink. There was only one color, black; this being before the advent of mutation mink, and we had our ups and downs with disease, malnutrition, et cetera. We mink ranchers in Wisconsin banded together to pool our informational resources, buy cooperatively and study together to learn this new industry.

As time went on we developed selling contracts with the auction companies in New York, using the deductions for small amounts of advertising. With the appearance of the new colors on the mink scene, we were able to promote and mass advertise these colors cooperatively into a very fascinating and profitable business. Throughout the promotional era of this industry we have consistently taxed ourselves at the auction level to do highclass consumer advertising in the best space magazines available. By the continuing use of this high-quality advertising and promotional campaign we were able to create an image for mink that made every American woman envious of her counterpart who could afford to wear one.

Our efforts were well rewarded until our competitors from the Scandinavian countries proceeded to dump such huge quantities of inferior mink pelts into the New York market that our American-built mink image was suddenly damaged.

These same Scandinavian competitors had previously destroyed the

silver fox industry in America by exactly these same tactics, and by the time the Congress was able to enact protective legislation, the silver fox industry was relegated to history and has never recovered.

This year for the first time we Americans find ourselves selling our 1969 crop of mink pelts at prices far below our cost of production. Our problem can be fairly stated by concluding that we cannot long continue to raise a product and sell it for roughly one-half of our cost of production. We are further aware of the fact that because of the high cost of American labor, we can never compete cost-wise with the foreign competition, and even though the imports have now dropped to the lowest level in many years because the market which these foreigners destroyed is no longer so attractive to them.

We are well aware, however, that if we take a big gamble and pour more money into redeveloping the image of mink, thus restructuring the price level, we again will be besieged with these overwhelming numbers of mink pelts from abroad. Thus our future presents two alternatives: Either we receive favorable action from our U.S. Congress at once or we will all be forced to abandon this business, which we have built and loved so dearly. We seriously request your help now before the American mink business becomes history.

In October 1969 I appeared before the Department of Agriculture with the following record that, in my opinion, clearly reflects the rise and fall of our industry as influenced by excessive foreign mink imports.

Average Unit Cost of Production figures from Arthur Young & Co., Auditors for many of Wisconsin's top mink ranchers.

Dressing costs based on 85% of the pelts having been sold dressed.

These figures tend to illustrate the effect of increased imports on American mink ranchers net prices.

Year	Average unit cost of product	EMBA gross price	Less commission deduction	Less dressing charges	EMBA Net price	Profit or loss	No. pelts imported per year
1956	\$14.69						
1957	14.70						
1958	11.84	\$20.70	\$1.58	\$1.28	\$17.84	+\$6.00	2,591,000
1959	17.13	21.77	1.66	1.28	18.83	+1.70	2,775,000
1960	16.82	16.94	1.29	1.28	14.37	-2.45	2,846,000
1961	14.86	18.14	1.38	1.28	15.48	-1.62	4,131,000
1962	15.02	16.03	1.22	1.28	13.53	-1.49	3,825,000
1963	13.82	17.38	1.33	1.28	14.77	-1.95	4,460,000
1964	13.59	17.55	1.34	1.28	14.93	+1.34	4,445,000
1965	13.37	19.55	1.49	1.28	16.78	+3.05	4,882,000
1966	13.55	14.16	1.08	1.28	11.80	-1.75	5,675,000
1967	12.91	14.62	1.11	1.28	12.23	-.68	5,346,551
1968	15.36	15.34	1.17	1.49	12.68	-2.68	4,781,378
1969	12.27	9.64	.73	1.49	7.42	-4.85	3,685,790

1 Estimated.

Source: Courtesy U.S. Commerce Commission, New York Auction Co., Inc., Hudson's Bay Co., EMBA Mink Breeders.

Mr. MACARTHUR. You will note that the chart gives you a 13-year history of cost prices, dressing charges, commissions, deductions, net prices, total imports per year, and the profit and losses per pelt for the average American mink ranchers.

Thank you, gentlemen.

Mr. VANIK. Are there any questions?

If not, thank you very much.

(The following statements were submitted for the record:)

THE STATE OF WISCONSIN,
Madison, June 4, 1970.

Hon. WILBUR MILLS,
Chairman, Ways and Means Committee,
Washington, D.C.

DEAR CONGRESSMAN MILLS: I have had a number of visits with Wisconsin mink ranchers and am aware of the plight which they are presently in as a result of the flood of foreign imports which are now competitive in the American markets. I was requested by one of our largest mink ranchers to join him in testifying before your Committee on Tuesday, June 9; however, I have previous commitments which make it impossible for me to do so.

I am advised by the President of the Association that in the February 1970 auction sale, mutation mink pelts were sold for a gross average of \$11.72. From this figure there had to be deducted 7½% of the gross selling price to cover selling commissions and association deductions. A further deduction of \$1.75 per pelt to cover the cost of having the skins dressed had to be imposed. This left the producer with a net return of approximately \$9.09. There were also hidden charges which are difficult to break down which have to be taken into consideration, such as transportation and insurance charges.

To further indicate the seriousness of the present situation, I have learned that the figures which are available for verification for the April auction sale of American Mutation Mink show that the dressed mink collection averaged \$10.04 gross. Using the same deductions which were applicable to the February offering, the take-home pay in this instance amounts to \$7.54 to the shipper.

Since the cost of production exceeds the selling price, it is clearly obvious that our American Mink Ranchers, unless given some relief by the Federal Government, will shortly have no other recourse but to go out of business or declare bankruptcy.

I am further advised that the situation has become so serious that about 50% of our mink ranchers have either gone out of business or will be unable to survive another year. This is critical to Wisconsin's economy in that our State has been the number one State in the Nation in the mink industry. I further am informed that one of the auction sale companies has taken such losses that they either have gone out of business or are about to do so.

Under the circumstances I hope that you will give consideration to the testimony which will be presented by the Wisconsin mink ranchers and endeavor to use your good offices to provide appropriate legislation or other protective measures so that this important industry may survive.

You have my permission to use this letter as a statement in support of the position of the Wisconsin mink industry.

With kindest regard, I am

Sincerely,

WARREN P. KNOWLES, *Governor.*

U.S. SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, June 26, 1970.

Hon. WILBUR D. MILLS,
Ways and Means Committee,
House of Representatives.

DEAR MR. CHAIRMAN: Please include my enclosed statements and letters in the printed records of your hearings on H.R. 148 and H.R. 153.

Sincerely,

MARK O. HATFIELD, *U.S. Senator, Oregon.*

Mr. Chairman, in your hearings on H.R. 153 and H.R. 148 which would amend the Tariff Schedules of the United States with respect to the rate of duty on the whole skins of mink, I should like to record my support for this proposal. I am a co-sponsor for the Senate bill, S. 2168 which is awaiting hearing. The purpose and content of this bill is identical with House bills H.R. 148 and H.R. 153. I believe the measure presently before you is necessary to uphold the mink

rancher's working capital and protect him from continually dropping prices due to excessive and duty-free imports along with the drying up of credit sources which have placed him in an increasingly precarious position.

The prices of pelts are suffering major declines. From 1960 through 1966 the average gross auction price received for pelt sales was slightly over \$18.00 per pelt; in 1967, '68, '69 the average was \$14.75, a drop of 18%. Furthermore, the figures for the first three months of 1970 show a gross average of \$12.75, a drop of 30.4% from the first quarter of 1969.

This is largely due to the large quantities of foreign pelts which enter the American market. Following a continuous rise in imports and dropping prices in the early sixties, the foreign imports captured 54% (5.7 million) of the U.S. market in 1966 with an ensuing drop in prices of 28% from the previous year. As a result, not only is the plight of the surviving mink ranchers critical but from 1962 to 1969, the number of ranchers has been reduced from 7200 to 2400.

On behalf of the Oregonian mink ranchers I want to encourage favorable action to be taken, as I am anxious for S. 2168 to reach Senate hearings.

As expressed in many newspapers, magazine articles, letters and telegrams, the mink rancher is now in a continuous struggle to provide for the well-being of his family and business. His problems break down as follows:

1. Many other segments of the agricultural industry have quotas which protect them against imports. The mink industry is relatively young and needs protection.
2. Mink ranchers must finance a whole year's operation in advance.
3. Credit sources—auction companies, production credit and local banks—are tightening up and this hurts the rancher greatly.
4. There exists no patent protection for new genetic color inventions as is true with horticulturists' new plants' patents.
5. There is inadequate protection against imported pelts currently passed off as United States products.
6. The equipment and housing used by the mink rancher is non-adaptable and as a business liquidates, there is no recovery value.

As representative of the many letters which I have received I am enclosing the following: (see enclosures)

1. Wustenberg
2. France
3. Pernu

This is worthy and necessary legislation. I sincerely hope that the Committee will take prompt and favorable action on H.R. 153 and H.R. 148.

TILLAMOOK, OREG., July 10, 1969.

Senator MARK HATFIELD,
Washington, D.C.

DEAR SENATOR HATFIELD: I am writing you at this time to thank you for your continuing efforts to obtain legislation in this session of Congress to limit the importation of mink pelts into this country.

Enclosed you will find a reprint from the latest issue of the Olympic Report, which is self explanatory.

I sincerely hope Senator Hatfield, that it will actually be possible to get the legislation needed in THIS session of Congress. This hanging on by our proverbial "fingernails" has reached the limit. Everything we buy has raised substantially in price the past six months and yet our product goes down. Just the item of real estate taxes on our land and buildings has risen 80% in the last 18 months.

I am 51 years old and my wife and I have everything we own invested in this mink business. We have one son who will be in his third year of college this fall, another son who will be a senior in highschool and a daughter who will be in the eighth grade. We would like to share in this booming economy of our country, as we are Americans too. I do not begrudge anyone the raise in wages they get or the companies that have to charge more for their products due to raising costs for them, but I do feel that we are entitled to the opportunity to pursue our occupation and have the chance to get a just reward for our labors.

The foreign countries that do produce mink pelts make no effort to limit their production, but think only of increasing it so as to have more to send to the United States and get our dollar. The only way to stop it will be to put a restriction on them as to how many they can ship in. I feel that this is being real fair

with them, as we are still allowing them a big share of our market. I am sure that if one of their home industries was in jeopardy due to foreign imports that would get some form of import controls on at once, but it seems that in this country an industry has to go out of business before Congress will do anything to save it and then it is too late.

Thank you again Senator Hatfield and please push for results in this session of Congress.

Cordially,

DONALD E. FRANCE.

TRAILS END FUR FARM,
Astoria, Oreg., May 11, 1970.

HON. MARK O. HATFIELD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HATFIELD: We have been in mink ranching 30 years and now are on the road to going broke . . . if you don't help us, perhaps even then.

During the last several years about two-thirds of the some 7000 U.S. mink ranches have quit, largely because of foreign mink pelt competition. Foreign imports pay no duty, have no quota. These have taken over more than half the U.S. market.

Mink ranchers hope for a 40%-of-the-United-States-market quota.

We are attempting to have this legislation enacted through support for S. 410 or S. 2168.

Sincerely yours,

LAUBI O. PERNU.

P.S. I believe you recognize with us that Government money policies and deficit financing have caused the inflation which raises our mink raising costs. higher than competitors'. We now need Government help to combat a Government-caused problem.

JUNE 15, 1970.

Mr. JOHN OBERDORF,
Office of Senator Mark Hatfield,
Salem, Oreg.

DEAR SENATOR HATFIELD: Enclosed is the most current list of known Oregon mink ranchers. It is one year old and not completely accurate, due largely to the numerous ranchers who have liquidated during the current selling season. I have crossed off several names of those who I know are no longer ranching mink. An updated list should be available in August.

Since our industry desperately needs help now to survive, I am more than willing to send any information that might be useful on our behalf. We have available data, compiled for years back, that show production figures, imports, exports, price trends, etc. The address of our central office is printed on the rancher list. Additional information is available in Washington, D.C. from the offices of Harold Lovre of Lovre and DeVaney, whom we have retained to help us conduct our mink-quota effort in congress. I have copies of much of this information that I can send you.

This year for the first time, mink ranchers were included in the 1969 Census of Agriculture, conducted by the agriculture Division (J. Thomas Breen, Chief) of the Bureau of the Census, U.S. Department of Commerce, Washington, D.C. 20233. This was done to provide some more reliable figures, on the current status of our industry, since our own information gathering had been conducted on a voluntary basis.

U.S. production and consumption of mink pelts is dropping while world production is climbing rapidly. We need protection from cheap foreign labor, along with many other U.S. Industries. My own gross income was down about 35% this year. This does not reflect further loss of net income due to rising costs and inflation. Many ranchers pelted breeder herds after seeing what happened to their prices. Others are producing a crop this year, having sustained a loss last year, with the idea of going out this fall if things are not improved.

Needless to say, *All* mink ranchers are grateful to Senator Hatfield for the support he has given us by supporting the Mink-quota bill.

Sincerely,

DONALD W. WUSTENBERG.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., June 9, 1970.

HON. WILBUR D. MILLS,
Chairman, House Ways and Means Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: I understand you are having a hearing on H.R. 148 and H.R. 153, to amend Tariff Schedules with respect to the rate of duty on whole skins of mink.

At the present time the small mink industry is being ruined by foreign competition, and unless some relief is given in the form of tariff protection, this industry is doomed to early extinction in this country.

Naturally, I will appreciate any consideration your Committee may be able to render in regard to sending this bill to the House, and extend a saving hand to the mink farmers of America.

Thank you and your Committee for your efforts and consideration in this matter.

With best wishes to all, I am

Sincerely yours,

PHILIP J. PHILBIN, *M.C., Massachusetts.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 22, 1970.

HON. WILBUR D. MILLS,
Chairman, House Committee on Ways and Means,

DEAR MR. CHAIRMAN: I wish to submit a statement in favor of protection for American mink farmers. In recent years our markets have been flooded with European imports—pelts and products of inferior quality which have destroyed the price level of mink fur in the United States, and with the price level, have destroyed the livelihood of many American farmers.

I think it is important for all of us to realize that mink farming and the mink fur industry were initiated in the United States. Americans began the business, Americans developed and improved it, Americans made it a success. And now our native farmers are being forced out of the industry by cheaper foreign imports.

If it were purely a matter of the American farmer being less able, less efficient, less skilled than European farmers, then I could give some weight to the argument that protection for American goods would be wasteful. However, American farmers have demonstrated that they can and do produce higher quality pelts than can the Europeans. American farmers have developed strains of mink which produce a wide range of colors unlikely to occur in nature—the Europeans have merely purchased breeding mink from American farmers.

Bills before the Committee now are *not* asking that foreign mink be tariffed out of the market. Rather, they are asking that foreign mink forever be subjected to the same level of *government-imposed* costs that American farmers have. Efficiency of production does not excuse the American mink farmer from paying minimum wages, social security, unemployment compensation taxes, and other assorted government imposts. The foreign farmer has a much lower operating cost to begin with, and besides that, does not incur the constant costs of government which face the American farmer.

At the very least, then, Congress has the responsibility to see that domestic and foreign mink farmers enter the market with an equal chance. Where the one must pay set taxes, the other should pay a tariff. The provisions of H.R. 17491, for example, treat more specific details of the problem, and I would support them.

I urge us to protect American mink farmers now. It is already too late for many.

With kind personal regards, I remain

Sincerely,

ARNOLD OLSEN, *M.C., Montana.*

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 15, 1970.

HON. WILBUR D. MILLS,
Chairman, House Ways and Means Committee.

DEAR MR. CHAIRMAN: Enclosed for your information are copies of letters I have received regarding legislation on mink imports.

I am in favor of mink import quota strengthening and feel that it is vitally important if the domestic mink industry is to survive.

I would appreciate being given the opportunity to place my endorsement of this legislation in the hearing record.

With kind personal regards, I remain

Sincerely,

ARNOLD OLSEN, *M.C., Montana.*

J. M. CLARK & ASSOCIATES,
Green Bay, Wis., May 5, 1970.

Rep. ARNOLD OLSEN,
*1436 Longworth House Office Building,
Washington, D.C.*

DEAR CONGRESSMAN OLSEN: It has come to my attention that there is a bill pending in Congress (Burke-Byrnes HR 148-153) dealing with a quota on mink imports.

I would like to encourage you to vigorously support this bill. I have seen the detrimental effects the large number of imports have had on the mink ranchers and, in turn, on the furriers in your area. I base this on my experience in handling co-operative advertising between the rancher groups and the local furriers. The drop in price of mink has caused great cutbacks in advertising in the state you represent.

Although this is one small segment of our economy, it does not take many instances like this to affect our total economic picture. Therefore, your support for this bill will be greatly appreciated. Thank you.

Sincerely,

J. MICHAEL CLARK.

CONNER, MONT.,
April 29, 1970.

HON. ARNOLD OLSEN,
*House of Representatives,
Washington, D.C.*

DEAR SIR: Please, won't you help the mink farmers from the United States?

We have written to you before, asking for your help to get a quota on mink imports, but to no avail.

The United States mink business is being ruined rapidly by the vast numbers of mink skins being imported from foreign countries.

Please, won't you take the time and look into this situation?

Sincerely,

JOHN and DOLORES HUGGANS.

DARBY, MONT.,
April 29, 1970.

HON. ARNOLD OLSEN,
*The House of Representatives,
Washington, D.C.*

DEAR SIR: I must ask for your immediate help. Since you are elected from the Western district of Montana, I am sure you are concerned about businesses in Western Montana.

My Father and I have operated a mink ranch in this area for over 30 years, but without an *import quota* enacted immediately we will not survive another year.

I hope you have enough concern for the mink ranchers of Montana and the U.S. to help get an import quota on the foreign imports of mink skins. Thank you.

Sincerely,

DAN J. HUGGANS.

STATEMENT OF DAVID A. BEAR, PAST PRESIDENT, ASSOCIATION OF FUR FARM SUPPLIERS, INC.

Mr. Chairman and Members of the Committee: Regarding: H.R. 148 Burke—Mink; H.R. 153 Byrnes—Mink

It is with sincere and critical interest I write you regarding this import quota bill on mink for protection of the U.S. production of mink.

We are a relatively small segment of U.S. Agriculture but all individuals concerned in this industry are self made men of integrity and are of good standing within their communities.

In addition to the producer, there are some over 12-1500 others of us and our families who as suppliers or processors to the mink industry are totally or in major part dependent upon the economy of this domestic mink industry.

For the past 3 years (since 1966 crop) since foreign imports broke the domestic pelt market we have experienced a steady, drastic and to many already a totally economically defeating decline in the value of our U.S. produced mink pelts. Ranchers are pelting out . . . busted.

We are dealing in a fine quality, style affected and specialty market and cannot afford to have our market so destroyed by the unlimited sharing of it with our overseas friends if we are to maintain this U.S. originated mink industry and our place in society.

We solicit and covert your immediate efforts in our behalf to help save this U.S. mink industry . . . we're all affected to one degree or another.

Personally, I have a degree in agricultural science from Iowa State University, and am employed to represent a major company to the mink industry; the future of the mink industry from my companies point of view is of relative little importance . . . but to me, and my family as with hundreds of others just like me, it has become our life blood and to see it eaten away is a pretty terrible thing. We need your help and consideration of our situation and some protection from foreign competition in the form of legislation on import quotas up to 50% in protection of our market.

If I can be of further assistance at any time in this regard, please do not hesitate to contact me.

If this bill does not go through, I will also be very appreciative of any help you might be to me in the obtainment of employment income as I am quite certain before very long I'll be needing it if I am to remain a producing tax-payer and primary source of support for my wife and four children.

This situation is seriously critical; we need some immediate action if there's going to be any future in this industry for any of us.

I trust you are aware of the industry's condition.

Please help.

STATEMENT OF HERBERT GRAFF, ON BEHALF OF ASSOCIATION OF FUR FARM SUPPLIERS, INC.

My name is Herbert Graff of St. Louis, Missouri. I am a marketing manager for the Ralston Purina Company with responsibility in marketing our products to mink ranchers. I am speaking on behalf of the Association of Fur Farm Suppliers.

The Association of Fur Farm Suppliers (list attached) is an organization of individuals and companies servicing the mink ranchers with cereal, equipment, wire, lumber, vaccines, fish, poultry-by-products, sheet metal, etc. Membership reached a high of 74 in 1966 and has fallen off as suppliers have gone out of business with the reduction in ranch numbers and the cutback in ranch repairs due to lower mink pelt prices. Approximately 60% of the individuals and companies in our membership have 100% of their volume tied directly to the mink industry. Therefore, they experience the same economic crisis as the mink rancher.

A mink rancher will invest approximately \$7 in feed and \$2 in supplies annually for each mink kept on the ranch. Therefore, a reduction of 1,000,000 pelts results in a loss of income to the food suppliers of \$7,000,000 and to other suppliers of \$2,000,000.

The estimate of a reduction in ranches from 7,000 to 2,000 and pelts produced from 8,000,000 to 3,500,000 in the past five years is confirmed by reduction in numbers of suppliers and comments of suppliers still in business. Further reduc-

tion in production will cause further erosion in number of suppliers, most of whom are small businessmen. Imported mink pelts have made up a large portion of the mink consumed in this country. The U.S. is the prime market! Ranchers in this country developed the many natural colors, expanded acceptance and demands of the garments, and have supported research for needs in feeding, management and disease control techniques. Now we are faced with disaster. Expansion of the industry in other parts of the world resulted from the excellent market for pelts in this country. They literally flooded the market, forcing what is a relatively inelastic market to a very low price level. Ranchers are selling their pelts now for less than cost of production. A quota of 30-40% imports of domestic consumption, even though liberal to foreign producers would benefit the industry in this country by:

1) Reducing total number of pelts presented for usage thereby providing a competitive situation in the market to raise the price level to ranchers to better than breakeven.

2) Stabilize the industry internationally by eliminating what can be termed expansion beyond consumption potential.

3) With a larger per cent of a more stable market assured for U.S. ranchers they will contribute more to advertising and promoting mink garments in this country.

4) Expansion to meet this increased demand will create more jobs on mink ranches and more jobs in industries supplying mink ranchers.

The mink industry in this country is approaching disaster and the psychological effect of passing a quota bill would breathe new life into the industry resulting in more young people going into ranching as well as support for more research in techniques to reduce costs in raising mink and improving quality.

ASSOCIATION OF FUR FARM SUPPLIERS, INC.

THE 1970 MEMBERSHIP LIST OF ASSOCIATION OF FUR FARM SUPPLIERS, INC. as of 5/1/70

Harold Scales, American Fur Breeder, Ojibway Bldg., Duluth, Minn. 55802
 Robert Safford, Annings of London, P.O. Box 1335, Fond du Lac, Wis. 54935
 J. W. Kuske, Boston Feed Supply, 177 Milk St., Boston, Mass. 02109
 L. L. Buck, L. L. Buck Produce Co., P.O. Box 218, Hopkins, Mich. 49328
 Avon Burk, Avon Burk Dist. Co., 3930 Coldwater Rd., Fort Wayne, Ind. 46805
 Frank Bydalek, Bydalek Fur Farms, Rt. 4 Box 477, Kenosha, Wis. 53140
 Kenneth Nanfelt, Coastal Fisheries, 16 N. Front St., New Bedford, Mass. 02742
 Sam Scandalite, Gloucester Mink Food Co., 88 Commercial St., Gloucester, Mass. 01930

Robert A. Laler, Heger Products Co., 2302 N. First St., North St. Paul, Minn.
 Les C. Borsum, Kellogg Sales Co., Battle Creek, Mich. 49016
 Wallace A. Lee, Lee's Mink Equipment, Rt. 1, Benson, Minn. 56215
 Hans Krimmel, Matawan Mink Ranch Supply, Hwy. 34, Matawan, N.J. 07747
 J. R. Callahan, Midwest Wire & Steel Prod., 535 Concord St., S. St. Paul, Minn. 55075

Allen Haukom, Nasco, Inc., Fort Atkinson, Wis. 53538

Vern Youmans, National Food Co., New Holstein, Wis. 53061

Galen E. Broyles, National Fur News, 200 Clayton St., Denver, Colo. 80206

Ethyl A. Low, Northeastern Mink Farmer, 449 Central St., Stoughton, Mass. 02072

Dave Bear, Charles Pfizer & Co., 4117 Vincent Ave. So., Minneapolis, Minn. 55410

Ken L. Sheedy, Protein Products, P.O. Box 328, Newburg, Oregon 97132

Herb A. Graff, Ralston Purina Co., Checkerboard Square, St. Louis, Mo. 63199

Wally Bein, Rathbun Feeds, Rt. 2, Plymouth, Wis. 53073

Right Mink Foods, Inc., Hwy 34 East, Detroit Lakes, Minn. 56501

Robert C. Russell, Russell Feed Co., Rt. 6, RFD 1, Andover, Conn. 06232

Robert M. Langenfeld, Silver Moon Foods, Inc., P.O. Box 115, New Holstein, Wis.

Charles W. Hess, Speco, Inc., 3946 Willow Rd., Schiller Park, Ill. 60176

James Summersgill, Summersgill Enterprises, 1819 S. Bayou Dr., Golden Meadow, La.

Art Anderson, United Labs, Middleton, Wis. 53562

Bruce W. Smith, U.S. Fur Rancher-Blue Book, 5100 Edina Industrial Blvd., Edina, Minn.

Val Christman, Valentine Equipment Co., 2630 W. Arthington St., Chicago, Ill. 60612

Tony Weiler, Weiler & Co., 214 S. Second St., Whitewater, Wis. 53190

STATEMENT OF HAROLD SCALES, EDITOR AND PUBLISHER, AMERICAN FUR BREEDER

Gentlemen: This is a deposition testifying to the urgent need for a mink import quota. My name is Harold Scales. I am editor and publisher of American Fur Breeder Magazine. Now in its 42nd year, AFB is the oldest and most widely circulated publication serving the ranch mink industry of the United States. It is one of the Harcourt, Brace & World Publications group.

From my vantage point I now see the American ranch mink industry facing the prospect of virtual extinction. This is primarily due to totally unrestricted pelt imports. And I remind you that I consider myself under oath.

I am grateful to the Committee on Ways and Means for this opportunity to testify on behalf of the American ranch mink industry and to plead for an import quota. Across the 8½ years that I've been editing AFB I have personally and vicariously experienced much despair as the industry has withered because of excessive imports. Today many of the country's great ranchers are being forced out of business. The disruption of lives and destruction of business values built up across lifetimes are causing immense distress and melancholy.

The same economic "sickness unto death" has been reflected in the total advertising lineage figures of AFB and the two other magazines which have served mink ranchers nationally. One is, or was, National Fur News. The other is U.S. Fur Rancher. NFN ceased publishing in March of this year via absorption of its circulation by USFR. Following is the total advertising these three publications carried from 1966 onward:

Year	Total pages	Pages per magazine for the year					
		Magazine	Pages	Magazine	Pages	Magazine	Pages
1966.....	602	A	213	B	205	C	184
1967.....	508	A	173	B	175	C	160
1968.....	493	A	186	B	169	C	138
1969.....	375	A	135	B	123	C	117
1970.....	230	A	80	B	70	C	80

¹ Partially by projection and assuming NFN had not died. Actual total may be about 180 pages.

I am sure that industry colleagues who are submitting depositions will point out to you why mink imports, particularly from Scandinavia, have so terribly injured the American rancher. But please let me briefly review key facts. Scandinavia presently is producing about twice as many mink pelts as the United States—about 10 million versus 5 million. Mink ranching in Scandinavia often tends to be a family type endeavor in which the mink are cared for by women and children. True, there are many large mink farms. But labor costs on these tend to be far under those paid on large commercial ranches here.

Scandinavian mink has never carried its full share of advertising in the United States. Instead, the Scandinavians have "ridden the coattails" of American advertising, which developed and expanded the market. The Scandinavian mink ranchers group, which sells under the Saga trade name, levies only 1 percent for advertising. This averages less than half that levied by American marketing groups.

The Scandinavians sell through cooperatively owned and operated auction houses, which are able to employ housewives as pelt graders, etc., during fall-winter months. This is less feasible in the United States where unionization, etc., is restrictive...

Russia and Canada also produce significant mink crops—about 4 million (?) and 1.3 million pelts respectively. In all, the world crop runs to around 22 million pelts, and approximately two-thirds of it is produced in Europe. This seems strange, indeed tragic, since mink ranching is a uniquely North American in-

dustry. The mink species, *Mustela vison*, that produces the world's great fur of commerce is native only to this continent. Mink ranching was painstakingly pioneered here by some of the ranchers now being forced out of business.

While I believe that the Burke-Byrnes quota legislation is our mink industry's best hope for survival, it is too altruistic. A 40 percent share of the American market is too much to guarantee to foreign producers. The level should be reduced to 30 percent and possibly less.

Of course I don't delude myself (nor AFB readers) into believing that a quota will be a prompt cure for the industry's ills. There are now other seriously adverse factors in the mink market equation of which we are all aware—high interest rates, etc. However, a quota would provide immediate hope for better years ahead. It would be a modest sea wall behind which a terribly eroded industry could begin to rebuild.

As an alternative to a 30 percent quota, Congress might wish to consider transferring the tariff which still exists on Silver Fox to mink. By the start of 1972 this tariff will have been reduced to 18½ percent ad valorem via the provisions of the first Kennedy Round. As you may know, it is only by a sort of "historical accident" that mink does not today have this protection. When the high tariff levels of this nation were established in 1930, Silver Fox was the great fur of fashion. Mink ranching, in its infancy, was one of the very few industries which was completely overlooked.

A bulky fur, Silver Fox faded in popularity with the advent of improved car heaters and the trend to trimmer feminine figures. After the end of World War II, when mink came into sudden fashion predominance, an overreaction to protective tariffs of all kinds had developed. Thus mink ranchers were never able to get protection for their new industry.

I know the basic argument for free trade, chiefly advanced by retail merchants, is that it provides lower prices for consumers. My God, how long will persons who advance such naive-selfish arguments remain blind? A nation, like an individual, cannot hope to get something for nothing. Free trade is like free love—somebody not involved in its benefits is going to pay for it via increased welfare costs, etc. The displaced persons of the mink industry, the unemployed of the textile industry, etc., are paying for lower costs on cheaply produced foreign products sold to American consumers.

However, lest my position as an editor be badly misunderstood, I must stress that I do generally believe in the ideals of free trade. But as a pragmatist I see that this ideal state may be unattainable this side of the millenium. For this is a world of intense national identities wherein many governments practice much deceit—especially in the critically important trade area.

As a mild illustration, I recall, when in Oslo in 1968, I was a guest passenger in a brand new Swedish-made Volvo car just purchased by a Norwegian fur industry official. I asked about its price. I forget the dollar conversion figure, but it was shockingly high. This, I learned was primarily due to an enormous import duty. But I was pointedly told this was "not" a protective duty. Norway had no car manufacturing industry. Nonetheless it seemed grotesque that such a formidable trade wall, masquerading as a normal device for securing national income, should so exist—and especially between sister Scandinavian nations. I was especially appalled because I had so long known of the Scandinavian fur industry officials' great dedication to free trade—especially to totally free access to the huge fur market of the United States.

I had also known that the American auto industry faces immense tariff walls abroad. Back in the spring of 1967 I wrote an editorial citing a story in the MINNEAPOLIS TRIBUNE about the son of a Chevrolet dealer in Norway. He was in the Twin Cities area learning American sales methods. The newspaper story quoted him as indicating that a Chevrolet costing about \$2500 in this country would cost about \$6500 in Norway. Again the extra cost—about \$4000,—was largely import duty.

We must also keep in mind that other nations no less dedicated to free trade than the Scandinavians are also a source of future mink imports. Among these is Japan. Japan now has a 20 percent duty on its mink imports. I understand. Meanwhile, Japanese produced mink comes into the United States free.

All this is certainly the freest kind of free trade from the Scandinavian viewpoint or the Japanese viewpoint. But what is it from our viewpoint? Noble self-sacrifice? Masochistic self-immolation? Prostituted trade? Idiocy?

Members of the Committee on Ways and Means need no reminder of the his-

tory of free trade. But because other highly influential but less well informed persons, may read this, please let me mention that it was apparently not coincidence that the benefits of free trade were first expounded by Adam Smith during the late 1700s. Britain was then, via the so-called industrial revolution, becoming the world's greatest producer of manufactured goods. Concurrently she was also becoming the largest holder of captive nations on earth. Unrestrained exchange of products of Britain's industrial revolution for raw materials from these undeveloped countries was a sensible arrangement. But immediately after World War I, which stimulated many nations to become more industrialized, Britain abandoned her espousal of free trade.

Similarly, when America was the world master of mass production techniques, it made considerable sense to advocate free trade. Today I'm advised that probably the only areas in which America retains any manufacturing supremacy is in production of computers and some finely calibrated instruments. Tomorrow???

In closing, I remind you that the United States we know will be less colorful, less interesting, if the glamorous and uniquely American mink ranching industry is allowed to disintegrate and become vestigial or nonexistent here. Free trade is indeed a beautiful ideal. But until commerce among nations is more millennial in nature, Congress should be pragmatic enough to provide realistic protection for badly injured industries. The Burke-Byrnes legislation, slightly amended, appears to be the best and most practical measure for salvaging the livelihoods of some 2000 or so despairing American mink rancher-businessmen.

Please give the Burke-Byrnes bill, H.R. 148-153, your support and press for it to be considered by the full Congress without further delay.

Thank you again for the opportunity to testify on behalf of the American ranch mink industry.

STATEMENT OF J. GEORGE GREENBERG, EXECUTIVE VICE PRESIDENT
ASSOCIATED FUR MANUFACTURERS ASSOCIATION, INC.

SUMMARY

The Associated Fur Manufacturers, Inc., an organization representing 550 fur manufacturing firms utilizing largely mink fur skins, through its Executive Vice President, Mr. J. George Greenberg, opposes all forms of controls on the importation of raw and dressed mink furskins. They point out that limitations on the raw materials available to the manufacturers will result in reduction of garments manufactured in this country and the likelihood of an increase in importation of foreign finished garments in competition with those produced in the United States. They state that most of the imports are absorbed in the trimming industry in the United States whose requirements are not adequately supplied by domestic mink producers. Under a quota system the trimming industry which is an important part of the U.S. fur industry would be denied the bulk of the raw material needed.

The Associated Fur Manufacturers, Inc., files this brief in opposition to all proposed legislation which would put import quotas or duties on raw mink skins and increase duties on dressed mink skins. Our Association has been in continuous existence since 1912. It has a membership of over 550 firms, which manufacture fur products and fur garments of all kinds, including trimmings, and which employ 5,000 workers in their respective factories. They produce between 70 and 75% of the total fur production in the United States. All of our members are domiciled in the City of New York, which today has been the world center of fur business but which is rapidly losing some of its prestige, fame and importance to West Germany, the second largest mink skin consuming market in the world.

As the U.S. is the largest fur consuming country in the world, unit wise, it is necessary that we maintain a free and unrestricted flow of raw furs. We are, therefore, opposed to the request of the National Fur Farm Organizations for a limitation in the number of skins to be imported into the United States, as it would create restrictions and deprive our membership and the consumers of this country of the opportunity of purchasing mink skins and finished products, to satisfy their wants and desires at prices within their range.

Our members manufacture women's fur wearing apparel from fur skins taken from every species of fur bearing animal found in the United States and elsewhere. However, production is largely of garments, stoles, trimmings and acces-

sories of mink fur, for in common with all other forms of women's wear, we must respond to fashion's demands and the fashion consciousness of the American woman who insists on "Mink furs."

Mink apparel combines mink fur pelts, and labor. Other items are linings, buttons, trimmings, all of them essential, but comparatively negligible from the standpoint of production costs.

Accordingly, it follows that a manufacturer must have a supply of mink pelts commensurate with the volume of business he does, or else he is out of business.

We estimate that the annual consumption of mink pelts in the United States in 1969 was in the neighborhood of 8,000,000 aggregating both those bred in the United States and imported from abroad. This represents all the mink pelts that are available to fur manufacturers annually from all sources, since we cannot import any mink pelts from Russia, as to which the embargo applies.

These pelts are absorbed by the Industry ordinarily as soon as they come to market. As an indication of this, the first six months of the 1967 season showed a definite slump and prices declined due to adverse economic conditions, such as tight money, economic slowdowns in European countries and the uncertainty and confusion in describing the color or naturalness resulting from conflicting rulings by the Federal Trade Commission regarding the dressing of mink pelts. Despite these adversities, as of December, when the new pelt marketing season commenced, the prior year's crop had all been used and there was a shortage in certain types of mink skins. The economic situation which contributed to that marketing year is again with us today. Sales of fur garments at the retail level are way down due to the shortage of disposable dollars. But give us a slight break in the economy between now and the end of the year and you will find a rapid surge in the demand for skins to produce more garments. When the surge comes, we must have the skins from here or abroad. Thus normally if there is any carry-over of pelts from one marketing year to the next, the skins are quickly absorbed in the new season.

If the skins available to the manufacturer are limited by quotas, there will be a corresponding decrease in the total number of finished garments and products available to satisfy the consumer demand.

It is this fact which constitutes the crux of our grievance and underlies our objection to any modification of the Tariff picture. Such modification can only result in a serious shortage of the required mink pelts. In addition, restricting and reducing the import of mink pelts would seriously hurt the trimming segment of our industry, which produces furs placed on ladies' coats and suits, dresses, and other accessories. Our trimming members have advised that imported skins are vitally necessary for them to continue to operate, because these skins are larger, the assortments are better and price-wise they are such as to permit purchase in quantity by the Cloak and Suit Industry, which produces for mass consumption by the middle class consumer.

It is only in the last few years that the Cloak and Suit Trade has resumed the use of fur trimmings after an absence of many years, aided by our promotion efforts through the agency of the Fur Information & Fashion Council. The resumption was made possible by the prices which have permitted the Trade to place such trimmings on garments and still keep them within a price range which the mass consumers could afford.

Fur manufacturing is a complex and laborious process, involving the maximum skills of men and women in a handicraft industry, skills acquired through long years of effort. Most manufacturers are relatively small units with a very limited output. To keep their plants in operation, they depend upon having an adequate supply of mink skins and a labor force to produce these fur products.

It follows that if the supply is reduced, this balance of skins and labor will be disturbed and the total output of many manufacturers must be reduced to the point where they will be unable to meet their production costs. Ultimately, they must do one of two things; either dispense with some of their production workers, or suspend operations entirely. Either alternative is disastrous.

In addition, the Cloak and Suit market would be affected, since workers are employed to place the trimmings on the coats and suits and dresses and they too would be affected by lack of work.

In addition, those manufacturers who manufacture mink garments other than trimmings, also make equal use of both imported skins, as well as domestic skins. To satisfy the demands of retail stores for the sale of garments to the average

consumer, they must have these types of mink pelts available for manufacture. Curtailment of the number of these types of skins would lead, in our opinion, to high prices for domestic products. Demand would exceed the supply available leaving us open to unfair competition from foreign manufactured merchandise, which can be produced at lower wage levels than those which prevail in our industry, and at low raw skin prices, since the United States market will be restricted.

It is also important to stress that foreign countries will, undoubtedly, retaliate by imposing restrictions on the sale of our manufactured goods to them, a field which we have developed for a number of years. The United States Department of Commerce figures indicate that in 1958, our manufacturers exported a total of one million six hundred and thirty thousand dollars (\$1,630,000) worth of fur wearing apparel. By 1969 this had reached a total of approximately three and a half million dollars.

If I may digress for a minute in order to indicate the effects of the present restrictions on certain furs, I cite the Ermine situation as an example. We are not permitted to import Russian ermine skins, which has resulted in a loss of business to our fur trade, loss of tax income to our Government, loss of wages to our workers and loss of income to our stores. Yet, ermine garments are being sold widely in this country today—coming in from Canada and other countries as a finished product, and one readily wanted by the fashion conscious consumer of this country. The law permits garments made from Russian ermine to come into this country if manufactured elsewhere, but does not permit these skins to be imported.

The United States is an affluent society, reaching all consumer levels, far greater than any other country in the world. This gives us the opportunity to consume a greater amount and a greater variety of pelts. Other countries enjoy a demand for high fashions, except in Germany, but it generally reaches only the upper levels of the consuming public. Because of the vast market in this country, it is necessary for a free flow of raw pelts of every description. This is a highly seasonal industry and any change in such a free flow would disturb the delicate balances and create a chaotic marketing situation in the mink trade.

It would create an oversupply in the early selling season, December through February, and shortages in the latter part of the six month selling period.

The Fur Manufacturing Industry in New York City consists of about 1082 manufacturing units of which 803 are engaged in mink garment manufacturing. The industry employs about 6,500 workers in the manufacturing field, and in addition about 6,000 other employees in general capacities—such as office, clerical, salesmen, maintenance workers, etc. This does not include the vast body of individuals employed in affiliated businesses, composed of processing groups, suppliers of chemicals, silk houses, and the like. An accurate estimate of the number of people in the industry depending upon a livelihood in those affected industries is virtually an impossibility.

We urge that the request of the National Fur Farm Board for import quotas be denied. Protection is not needed by domestic breeders whose output is insufficient for the need of the industry. There is no glut of mink skins and there is no earthly reason for imposing such quotas on the importation of mink skins.

STATEMENT OF ARTHUR M. STRINGARI, LEGAL COUNSEL, FUR DRESSER'S BUREAU OF AMERICA, INC.

SUMMARY OUTLINE

(A) The Fur Dresser's Bureau of America, Inc., a trade association representing all companies engaged in the processing and dressing of mink in the New York area, is unequivocally opposed to any quota on the importation of raw mink pelts.

(B) Within our knowledge, our position is consonant with the position of all major segments of the fur industry with the exception of the American mink rancher.

(C) It is the position of the fur dressers that quotas on raw mink would stifle competition and would create a seller's market for the American mink rancher.

STATEMENT

The Fur Dresser's Bureau of America, Inc., is a trade association of fur dressers located in the metropolitan area of New York City and it has a present membership of eight (8) companies. In 1967, when the same association appeared before the United States Tariff Commission—relative to the same quota question—it represented then, as it does now, all the fur dressing companies engaged in the processing of mink in New York. However, compared to the present eight (8) companies, the Fur Dressers' Bureau then represented eleven (11) companies; three (3) companies having since either gone bankrupt or ceased business operations.

The reason for this drastic change and diminution has been due to a tight money market, lower prices, restrictive credit policies and most significantly, *a severe decrease in the number of mink skins available for processing.*

The following official figures best illustrate the severe decrease in the number of mink pelts dressed in the United States in the last two years:

1968.....	9, 741, 478
1969.....	6, 320, 572
Net decrease.....	3, 420, 906

As is apparent, the fur dressing industry lost a little better than one-third of the previous years total. In addition, and to the dismay of all concerned, 1970 dressing levels are running 30% behind that of 1969!

Thus, the fur dressing industry, as we know it, is in most desperate straits, and cannot afford any further adversity to it without fear of this country losing another vital, even though small, industry. It is for this reason that the fur dressers are fearful that any quotas placed upon the importing of raw mink would be disastrous and would be the so called "nail in the coffin" for an already seriously ailing industry.

Quite interestingly enough, in 1967, this same association took a contrary position before the United States Tariff Commission. At that time, we supported the American mink rancher in support of quotas on imported raw mink. The Tariff Commission was hearing arguments presented by the American mink rancher, in support of a 40% quota on mink. The American mink rancher wanted mink imports to be limited to 40% of domestic output; coupled with a 50% ad valorem tax on any imports exceeding 40%. We equated the plight of the American mink rancher with the *amount* of imported foreign mink. Later investigation, however, disclosed that imports *were not* the cause of the ranchers plight. We found that our position was not sound and lacked validity for the reason that all segments of the fur industry were being affected in the same proportions—not only the American mink rancher. Subsequently, although 1968 and 1969 fur seasons were only comparably fair, 1969 brought drastic downward changes.

Tight money and decreased disposable income had its effect on all segments of the fur industry. It became eminently clear at this time that our previous support for mink quotas was wrong. Because of the tight money, lack of disposable income, etc., pelt values of both imported and domestic mink were equally affected. In other words, the American mink rancher did not suffer alone. The entire mink industry was depressed. A good example of what we mean is *Alaska seal*. By international treaty, this item is controlled by the United States government—its harvest, its processing, its sale, and *while this item has no foreign competition, it is down 23% from a year ago.* And so the story goes with all segments of the fur trades. Hence, the ranchers are not alone in their plight nor above all will quotas solve the problem.

Confirming the above conclusion, the United States Tariff Commission report of 1968 to the President concluded as follows:

"The following factors contributed to the sharp decline in the average price that mink ranchers received in 1967:

1. A retardation in the economic growth of the United States and the major mink consuming countries in Europe;
2. Reports late in 1966 that the world supply of new mink furskins was more than adequate to meet demand;
3. The accumulation of large inventories of mink furskins in the hands of domestic fur dealers and garment manufacturers late in 1966; and

4. The introduction of new fur dressing techniques and decisions by the Federal Trade Commission regarding their uses, which caused apprehension in the trade."

Thus you can see that in the 1968 Tariff Commission report, *it found no reason to believe that the then low mink prices as suffered by the American ranchers resulted from imports*; nor has any subsequent development in the fur industry changed this finding of fact. Thus, while we are in desperate need of help, imposing quotas on mink is certainly not the answer.

Mink pelts constitute over 65% of our total production. Although we dress and process all types of fur skins, mink remains our bread and butter item. To impose restrictive quotas at this time, on an already overburdened and depressed industry would unjustly cripple and irreparably harm the fur dressers who indeed are struggling to survive. In our view, it is necessary that we in the United States as the largest mink consuming country, maintain a position of free and unrestricted flow of raw furs. We are opposed to any reduction in the number of skins to be imported into the United States, as it would create restrictions and impose burdens on nearly the entire fur industry and yet at the same time, not only fail to solve the problem as it exists, but compound it.

Fur dressing is a complex and laborious process involving highly technical skills acquired only through long years of effort. All American fur dressers are relatively small companies with limited output. To keep their plants in operation, it is essential that there be an adequate supply of mink skins and, of course, a labor force to produce them. It follows then, that if the supply is reduced, the total production obviously would be diminished to a point where it would become too costly to continue business. *This is precisely what has happened to several dressing companies in the past two years*; a recurrence which we neither desire nor wish.

Let us be practical. If our country imposes a quota on mink, does anyone for a moment believe that it will stop the flow of foreign mink into the United States? Let us take ermine for example—Russian ermine. Russian ermine raw skins are not permitted to be imported into the United States. But, does this mean that we see no Russian ermine in the United States? On the contrary, Russian ermine garments are sold extensively in this country, coming in from other countries. Can anyone deny that fashion conscious women who can afford ermine won't buy one simply because our government curbs the import of the skins? If we impose a quota on mink, let me predict that the same thing will happen. Foreign mink dressed elsewhere, manufactured elsewhere, will come into this country as a finished garment—to the everlasting loss of American labor and American industry. This would lead to the eventual deterioration of our position as the fur capital of the world, and it would be the very vehicle by which Europe would then become dominant as the world's fur center.

The United States Department of Commerce recently disclosed that the American fur rancher has increased the *exporting* of United States (domestic) mink by 35% in 1969-70 over the same comparable period in 1968-69, while at the same time *imports* of foreign mink decreased by 32.61% for the same corresponding period! Accordingly we believe any quota on imported mink would drastically alter, if not ruin, the mink business in the United States. First, any quota such as those suggested may create a seller's market condition for the American mink rancher. Demand depends upon supply available and the relationship of both determines the price. If the United States rancher limited total domestic supply by reducing mink output, it of course would drive the prices up—naturally to their advantage. Realistically, ranchers could, if they wish, then almost peg prices at whatever level accommodates them best. This would constitute a seller's market and one to which we are unalterably opposed.

Again, quoting from the 1968 United States Tariff Commission Report, we see at page 12:

"The bulk of the imported mink furskins are of the standards colors and belong to the so called commercial grade, i.e. medium-to-low quality; moreover, more female than male furskins are imported. The imported furskins are used primarily in mink garments that are sold in the low and middle price ranges, and as collar or cuff trim on garments not made of fur. . ." (Emphasis added).

If Congress restricts the importation of "low and middle price" mink pelts, it would deprive thousands of American women from buying a mink coat within their means. It would mean that only women of expensive means could afford a mink garment. We believe that all women are entitled to enjoy the pleasure of

mink, whether that coat sells for \$800 or \$8,000. The United States is an affluent society reaching all consumer levels far greater than any other country in the world. A seller's market for the mink rancher would change this drastically because only the wealthy would be able to afford a mink coat.

As shown above, it is also a fact that the trimming trade relies heavily on the commercial quality of foreign mink because the domestic sources do not produce a sufficient quantity. If a quota were imposed, it could well mean the end of the highly important trimming industry and, of course, a great loss to the dressing industry which processes these skins. In our view, it becomes absolutely necessary for a free flow of raw pelts of every description to be allowed entry without quota into the United States.

We believe that it is absolutely essential, in order for the fur industry in this country to survive, that there be free, open and unfettered competition. No industry can long survive where a part of it enjoys protective sanctions to the detriment of the remainder. Unless every segment of that industry has equal opportunity to earn a reasonable profit and to produce a creditable product, it will eventually perish.

We do not seek, nor do we desire preferential levels. The fur dressing industry in America has survived on the basis of open and spirited competition. We cannot survive if our bread and butter item, i.e. mink pelts, are deprived us. As noted before, the fur dressing industry needs a gigantic shot in the arm to save it from further decimation and it is an open secret that any quota on the importation of raw mink pelts will sound the death knell for the American fur dressers.

STATEMENT OF LESLIE C. BORSUM, SALES MANAGER, FEED SALES DIVISION,
KELLOGG CO.

My name is Leslie C. Borsum. I am sales manager of the Feed Sales Division of the Kellogg Company of Battle Creek, Michigan.

We realize that we are not the only persons who will be making statements to this Committee relative to the plight of the mink rancher. With this in mind we will not attempt to quote facts as stated by the others. Statements made here are conditions in the mink industry that affect a facet of the Kellogg Company, namely, the mink cereal feed business.

Since 1926 the Kellogg Company has been producing a cereal blend which has been sold to the American fur farmer. This is the carbohydrate factor of the mink's diet.

We have seen the fur business, especially mink, grow and prosper in this country. At one time there were 18 manufacturers producing and selling mink cereal. Today due to the economic factors involved there are only 10 manufacturers selling mink cereals to ranchers. This you can say should be good for those remaining in the business as competition has been materially reduced. But that is only half of the story. Just a few short years ago there were 7,000 mink ranchers in the United States and today fewer than 2,500. Domestic production of mink has declined from its height in 1967-68 to less than an estimated 4,000,000 pelts in 1970.

The cause of this is purely and simply a matter of economics. I am sure that others appearing before you have told why this has come about and I need not dwell on this.

I am more concerned as to how it affects the mink industry and its effect on the Kellogg company.

The mink industry is and always has been under-financed. This is true of the producer, the wholesaler, and the furrier. All of them operate on borrowed capital. When we have a situation such as we have at present it immediately affects our business.

We are faced with a shrinking market for our product. Our potential market has been reduced more than 50 percent. Ranchers that are left are finding it more difficult to secure the necessary financing to pay their bills and to have operating capital. One of our large auction companies is no longer providing financing. This opens the door to further foreign competition in this field.

In the past we have extended credit on a pelt assignment loan basis to mink ranchers who were able to secure part of their financing from auction companies. Ranchers are pushed to the point that their only security is the mink. With prices depressed as they are, the mink are not sufficient security for our Com-

pany, for banks or government agencies to grant loans in large enough sums to permit the rancher to operate.

In summary then:

Ranchers are forced out of business due to lack of finance. (We lose customers.)

Ranchers are forced out of business due to low cost foreign competition. (We lose customers.)

On top of this we are faced in this country with rising costs, increased labor costs, and increased freight rates. This in the face of a declining price for mink skins makes it hard to do business on a profitable basis.

It is my belief that unless we receive some protection in the way of an import quota the mink business as we know it in the United States will go by the board. We need help and we need it now if the industry is to be saved.

STATEMENT OF WALTER G. TAYLOR, STAFFORD SPRINGS, CONN.

Mr. Chairman and Committee members, I appreciate this opportunity to present my story of the American mink ranching industry disaster, and urge passage of HR 148, HR 153 or HR 17491 and similar bills.

My name is Walter Taylor. I am a mink farmer from Stafford Springs, Connecticut. I am also a director and past president of the Emba Mink Breeders Association. I have been raising mink since 1941 starting with three mink and developing up to a partnership, operating as a chapters corporation, employing as many as 18 workers and producing up to 7500 pelts a year.

Mink farming has been good to me in the past. It has been a very interesting occupation and has furnished me with a modest living for 20 years. But now because the United States government has left our market open free to all comers we have come upon hard times.

It is painful to me to admit to you my financial experience of the last 2 years, but I think you should know the facts as they are.

Our average cost of production in 1968 was \$20.86* per pelt with a net sales return of \$14.25 or a lost of \$6.61 per pelt on the 6201 pelts sold for a loss of \$41,001.01 not including sale of 817 pelts carried over into the next year. We shipped 7,500 pelts from the 1969 crop and the average production cost was \$16.89 per pelt. The average net selling price through May 18th is \$8.52** showing a loss of \$8.38 per pelt for a total loss of \$48,880.36 on the 5828 pelts sold thus far in 1970.

This makes a total of \$89,881.37 on the two crops not including the loss on the 817 pelts carried over from the previous year and the 1672 pelts yet to be sold from the 1969 crop. The total loss for the two years will be in excess of \$100,000.00.

As a result of these disastrous sales we have lost our operating capital and are forced to dissolve our corporation. I am now reduced to a herd of less than 800 females on my farm operating as a family unit without hired help trying to hang on hoping for a change in the market and praying that Congress will enact some import control.

The bulk of my life savings is represented in a mink yard and equipment for housing mink. And, my remaining assets represent collateral to enable me to bring the 1970 crop to market. My son and I take care of the mink by ourselves and both of our wives work at outside jobs to help support the mink.

It is pretty hard for me to walk off and leave my mink farm when you consider the investment involved and the 30 years work it represents. I fear that the same thing will happen to it that happened to my neighbor 5 miles north of my farm. He died and his sons failed. One son took a small part of the equipment to operate on a small scale. The town took over the property and sold some useable equipment and used metal roofing for \$1,000.00. The rest was bulldozed into a pile and burned. What wouldn't burn was buried in a trench. I estimate that the set up had cost my neighbor a minimum of \$75,000.00.

*Our costs have been higher than the average reported by mink farmers. Our accounting is accurate and complete and includes nominal pay for the principals as well as all other costs. We have been able to tolerate higher than average costs because in the past we have enjoyed higher than average selling prices topping many auction sales over the years.

**Net selling price to the rancher is the gross sales price less the auction commission, less the association deduction for advertising and less the tanning costs for those pelts that are sold dressed.

If these facts seem unbelievable to you just think how they seem to me. I am nearly 65 years old and find myself facing complete business failure and probable loss of my remaining assets.

I have a capable energetic son who wants to continue with the mink ranching business but finds the outlook nearly hopeless. I certainly cannot stand any more losses like those of the last two years.

Why did all this happen? Well, I put the primary and greatest blame for the decline of the mink ranching industry to excessive unrestricted imports.

The idea of mink raising was conceived by Americans and developed by Americans using North American wild mink. It is as American as Daniel Boone.

Taking a brown colored wild mink, the American farmers have developed a superior fur called standard dark mink. Using Mendel's laws of inheritance they have taken color mutations that appeared by chance and developed and invented more than thirty beautiful colors in mink fur.

They built a whole new industry from scratch.

With these new products and skillful promoting and advertising they have increased the world consumption of mink from less than one-half million wild mink to over 20 million mink annually.

To do this American mink farmers taxed themselves at the point of pelt sales, raising and spending over twenty million dollars only to find now that due to totally unrestricted imports, that they do not own the market, they only paid for it.

And incidentally, U.S. ranchers did much to build the European market for mink. Starting back in 1952 the American ranchers have spent upwards of 2 million dollars advertising and promoting mink in Europe.

The increase in production of mink in the United States has been moderate permitting us to maintain high quality. While the United States production was increasing to a maximum of six and one-half million pelts, the foreign production has increased to an estimated fifteen million pelts annually.

Through the years the Americans have sold and promoted mink as a prestige luxury item. And the high status of mink is a testimonial to the success of that approach.

When the Scandinavians entered our market they treated mink pelts as a common commodity, selling without limits, and their limited advertising was not of the quality to maintain the prestige of mink, in my opinion.

Mink fur is not a necessity nor even particularly utilitarian in this age of modern heating and air-conditioning. Mink is strictly a fashion item and a luxury. Sale of such a luxury item is largely psychological and has an unusual relationship with supply and demand. The unprecedented desirability of mink among women has been due in a large part to scarcity bolstered by fine quality and beauty. And high price is a definite positive factor here.

When the market is flooded with massive quantities of low grade mink such as the eleven million imports in 1966 and 1967 there is no scarcity, availability and poorer quality are obvious and the prices are low.

All of these factors caused fashion leaders to look elsewhere for exclusive furs. Where fashion leaders go the others try to follow. Thus, the inevitable tarnishing of the bright image of mink began to lessen U.S. consumption.

Mr. Albert Woodley, who has done more than any one man to make the mink industry great predicted what is now happening in his testimony before the Tariff Commission* in 1967:

"Now, cheap mink is mink of poor quality, and imported foreign mink is largely of poor quality. The prestige image of mink is being eroded by these unrestricted imports to an alarming degree to a point where the American mink industry may collapse to a state where *Womens' Wear Daily*—the bible of the industry—said recently that "Mink had driven a big hole through cheap furs." This means that stores can now offer mink garments at the price of the traditionally cheap furs of other animal origins. Soon, if not now, it's goodbye to mink as a prestige fur, and mink as a fur on which the American farmer can make a living. Many farmers, some of the very good ones, have already gone out of business because of the cheap imports, and unless relief is afforded in the way of import controls, the entire American mink industry could be put out of business in two years.

*Testimony before the United States Tariff Commission, December 5, 1967, page 116.

It cannot be said that cheap foreign mink is not competitive and fills some imaginary need, because of its lower price. It is worse than that—it is downright destructive for it tragically dilutes the entire face and fortune of American mink."

Mr. Meltzer,* President of the Evans Inc. Worlds largest fur retailers also stated:

"It is my view that if vast importations of mink of poor quality are permitted to increase, the prestige image of high quality mink built by American ranchers will be diminished to the point where the demand for mink will eventually disappear."

These predictions are rapidly coming true and only a quota can make a come-back possible.

Added to this impaired image of mink came the present U.S. business recession. Luxury items such as mink suffer first when business dips. This caused even lower consumption of mink in the United States.

While we have been experiencing a marked business drop off here, Europe continued on a high level of business and the last two years have been banner years in fur sales over there. The Scandinavians have therefore had a ready market right at home and consequently their exports into the United States have been less and furnished a smaller percentage of domestic consumption.

In the days when the United States produced most of the world's mink pelts if supply caught up with demand, cutting back or holding even in production here would quickly result in better prices. But now with the United States producing only a fourth or fifth of the world crop of mink and, lacking any import control, every cut back here can be immediately replaced with the millions of pelts available overseas.

We need a quota to protect us against this.

While mink production is decreasing rapidly in the United States it is still increasing in Scandinavia.

When the economy does slacken in Europe they will once again turn to the United States market and unless we enact some flood control in the form of quotas we will be completely inundated with unprecedented imports.

There is no question about it, the mink ranching industry is in a deep depression. At current market levels practically every mink farmer in this country is operating at a loss.

Without import controls, I think U.S. mink ranching will disappear as a viable industry.

Given our requested quota, however, we believe that mink can be restored to a position of the most wanted fur at profitable prices.

United States mink ranchers do not want to be the sacrificial lambs, sacrificed on the altar to appease the great gods of "Free Trade" and "Balance of Payments."

Please, please do not permit it to be said that the American mink ranching industry died because of failure to enact protective legislation.

Thank you, again, for permitting me to tell my version of the mink ranchers catastrophe.

STATEMENT OF W. J. ROSS, CO-MANAGER OF ROSS-WELLS

Mr. Chairman and Members of the Committee: Ross-Wells, Box 61, Thiensville, Wisconsin a Division of Beatrice Foods Company, Chicago, Illinois processes and distributes mink foods over the entire areas of mink farming. These products mainly consist of Poultry By Products, Packinghouse By Products and Fishery Products, and are processed at the following locations.

Ross-Wells	Eastern Animal Foods
Thiensville, Wisconsin	Berlin, Maryland
Gainesville Animal Foods	Southern Animal Foods
Gainesville, Georgia	Jasper, Alabama
Ross-Wells	Medford Fur Foods
Empire, Louisiana	Medford, Wisconsin
Pittsville Fur Foods	St. James Fur Foods
Pittsville, Wisconsin	St. James, Minnesota
Pelican Rapids Fur Foods	Alabama Animal Foods
Pelican Rapids, Minnesota	Boaz, Alabama

*Testimony before the United States Tariff Commission, December 5, 1967, page 123.

Total sales for 1969 were \$8,395,000.00 which represents tonnage of 106,900,000#.

Ross-Wells strongly supports the above mink quota bills and like the mink ranchers, is fighting for survival. The special equipment used in processing mink foods cannot be utilized in any other business so the total values of Plants and Equipment would become worthless. Passage of these bills is necessary for the survival of the mink industry.

STATEMENT OF LARRY MOORE, SUAMICO, WIS.

Mr. Chairman and Members of the Committee, I, Larry Moore, of the City of Suamico, State of Wisconsin, have been a mink rancher for the past 50 years. I have a capital investment of approximately \$50,000,000, exclusive of my breeding stock; my average annual production is approximately 25,000 pelts and the cost of my operation is approximately \$350,000.00 annually. I submit this statement in support of mink quota legislation because of the excessive imports of low quality mink in 1966 and 1967 and subsequent years, which not only broke the market, but has tarnished the image of mink for years to come and which is the direct cause of the deplorable condition the industry finds itself in today.

A MINK FARMER LOOKS TO OUR GOVERNMENT

This is your and my beloved United States, where smalls are listened to and acted for as quickly as bigs with millions of votes. You are our representative; you are our only access to fair trade and treatment.

Agricultural Secretary Clifford M. Hardin went to Capitol Hill a few weeks ago to urge more liberal world trade in farm products, but defended U.S. import controls for meat. He added U.S. duties on imports of farm products, generally (average a moderate 10%, the lowest for any major agriculture country in the world).

Quota and tariffs were originated to protect young new industries. Have the gears of justice slipped or are we so small you didn't hear of us before? We are the youngest; we are the newest. All the old agricultural industries have protection. We have none. You could be proud of us. We accomplished more in practical genetics in 30 years than any other animal husbandry did in 300. We use the by-products of the nation. We developed genetically all the most delicate colors in mink. We in North America by domesticating the wild mink kept it from being as extinct as the passenger pigeon.

I originally thought there must be almost no item with tariff or quota. I sent for a tariff book; it was so large I was astonished. I started to count the items and when I got into the thousands, I gave up. It looked as though every agriculture item was there but mink!

Secretary of Commerce Morris Stans in his talk before this committee added that he realized average labor in the United States was \$2.38 per hour, Japan was 57 cents per hour, Korea 13 cents per average man hour and 7 cents per average woman hour. Mink ranchers in the U.S. have gone from 7,000 in 1962 down to 2,000 in 1970. Because we built a market over the past 25 years by using twenty million dollars to advertise, the mink ranchers from across the water have gone from zero to over 12,000 ranchers. To understand our mink problem, you must realize it cannot be calculated statistically like so many pounds of food or machinery. Merchandising and advertising must be correlated with supplies. To understand this you must listen to merchandising and advertising people who will tell you that large quantities of poor quality mink will not only break the price, but will break the carefully built-up merchandising image and will ruin the market for years to come, according to Mr. Albert Woodlev of Albert Woodlev Advertising, New York City. Time has proved his predictions were right. This terrible mistake has cost thousands of family farms, their life savings, and work. I can understand this mistake, but it must not be allowed to happen again.

What the mink ranchers are asking for is practically free trade. We want to give 30/40% of our market (which U.S. ranchers built) to the foreign ranchers. This might not even be a roll-back, since imports broke our market and our image with taking 55% of our market and importing over 11 million pelts in two years (1966 and 1967). Due to the saturation in low quality mink pelts, the market has gone bad and the prices have become so low that even the foreign

exporters have cut the number of mink coming into the U.S. to 35% of the total number used in the United States. It will take a goodly number of years to rebuild our image and market.

Why then would this limitation on excessive imports help the U.S. ranchers? We would have a sound basis to start to build our market and image back with advertising and merchandising. And, never again would imports ruin us by fast expansion (you can't raise decent mink with an average expansion of 23% as our foreign friends have) and consequently take 55%, 65%, 85% or even 95% of our market, as they now have the ability to do.

This limitation on imports would take the disastrous bust out of our industry. Once again, supply and demand/merchandising and advertising would work! This would help stabilize a market for our foreign friends and they would be able to correlate their production to their merchandising and advertising.

We are guaranteeing a market for them and consequently there would be no reason for retaliation from the countries across the pond.

1. Because they already have a much higher protection on most of their agricultural products than we.

2. Because we are willing to keep the level and percentage the same as in 1969.

3. We practically send no mink to their country.

You, as our government, control many of our costs with laws and regulations you make. We, as a young industry, cannot with costs you impose on us compete with labor—to mention one item. They protect their agriculture with higher percentages than ours. It would be unreasonable for our international dealers (in tariff and quota) to sell out our industry over the block for the good of some other industry that they have greater personal feelings for. The United States is strong because she protected her new, small industries many years ago. I beg your committee to let no country out-trade the United States and especially the hard-working mink farmers who are willing to give 30% or more of our own built-up market to ranchers from across the ocean. Because in 1967 the Tariff Commission made such a terrible mistake by not recommending limitations on excessive imports, our ranchers are in bad financial shape. New York Auction Company, who loans four or five million dollars a year to help ranchers raise their crows, will this year make no loans. I ask not for myself, but hope the government will step in and help ranchers live until we get this industry back on its feet.

Please don't wait to give us protection until next year. If you do, you will have finished off a large percent of the mink farmers and also cost them their life savings. You may not realize how true this is, but the facts are very plain and speak for themselves. There were 7,000 family ranchers—now, there are only 2,000 family ranchers left.

WHAT ABOUT CANADA?

Their costs and needs are similar to ours. I wish there wasn't a border between us and we were all one country, North America. I have talked with many Canadians—their costs, expansion and problems run parallel with ours. I know some of them plan to set up a quota that will link with ours as soon as ours is voted. This would help stabilize the whole mink world and be nothing but good,

WHY IS AMERICAN LABOR INTERESTED IN PROTECTION NOW?

1. Because mink pelts are starting to be sent across the ocean to be dressed at cheaper prices by cheaper labor.

2. Because mink pelts are being sent across the ocean to be made into garments at cheaper prices by cheaper labor.

3. Because foreign pelts and foreign-made mink garments are coming back into the United States duty-free to hurt United States labor.

All of this will expand if we don't get protection.

SUMMARY

"The entire American mink industry can be put out of business in two years."

This statement made before the Tariff Commission in 1967 by Mr. Woodley is almost a reality. If you do not take action now to limit excessive mink imports, you WILL make this a fact. We are not trying to be greedy in encouraging you to enact proper legislation to protect us from excessive imports because we are offering to give 30/40% of the market to our foreign competitors. This is more than they have had the past year.

Their cost of labor and so forth is far, far less than ours, which means they can sell for less money than we can. The result of this is that eight years ago we had over 7,000 mink ranchers and today have only 2,000. Most of these will be out of business by the end of the year unless you give them protection. In turn, our foreign competitors have expanded to over 12,000 ranches because of the market we built with over twenty million dollars in advertising.

We want to know that if we live through these times when we are losing money on each mink we can be assured that what has happened in 1966-67 (flooding the domestic market with cheap foreign imports) will not occur again. It has taken 25 years to build our prestige and image and two years to ruin it. We cannot go through years of rebuilding only to have it ruined again.

If we do not have a limitation on excessive imports, the UNITED STATES MINK INDUSTRY WILL BE DEAD by the end of the year.

(NOTE: Albert Woodley of Albert Woodley Advertising, New York City . . . testimony before the United States Tariff Commission, Dec. 5, 1967, Vol. 1, Page 116)

STATEMENT OF ROY D. HARMAN, CHRISTIANBURG, VA.

My name is Roy D. Harman. I live at Christianburg, Virginia, where I have been a mink and silver fox farmer since 1927 and on a fairly large scale since 1931.

I am a past president of the National Board of Fur Farm Organizations and at present serve as chairman of the National Policy Committee which, among other things, is charged with the passage of H.R. 153 and H.R. 148 and some sixty similar companion bills in the Senate and House requesting protection from excessive importation of mink furskins.

For many years after mink farming began in the nineteen twenties, the problems were mostly of production. There was a ready market at good prices for all the mink furs available then. Minks in the wild were found only in North America and mink farming started in the United States and Canada about the same time.

As production methods were improved, the mink breeders in the United States looked forward to the time when many more mink would be produced, and, through our Breeder Associations, we spent many millions of dollars in advertising and promoting mink fur in its original dark color and in over twenty beautiful natural mutation colors that were developed, beginning about 1938. Mink farming was a good business to be in then.

The risks of breeding wild animals in captivity with unknown diseases and parasites lurking in the background discouraged big capital from entering the fur farming field. Instead the pioneer mink farmers were mostly young, ambitious men who loved animals and outdoor life but had limited capital. Many fell by the way, unable to produce good enough to earn profits but the success of many would make some of the greatest success stories ever written. The goal was usually financial security for the family. In many cases the mink ranch remained a family sized operation but some grew until they employed a considerable number of people on their farms. Many of them have been in business so long the sons are now taking over management.

On our farms we have several men who have changed from youths to grandfathers while employed here. We would hate to see the mink prices get so low we could no longer employ these dependable and well trained men. Unless some relief is secured from excessive imports, the time is fast approaching when we will have to do so. Only the profits from other businesses we are in has saved our mink farms this long. Over half the mink breeders in the United States have been compelled to quit the past three years. Due to low mink prices many of them did not have enough assets to get out of debt when they pulled out. Many years of work were lost.

We mink farmers are important to others too. We use enormous quantities of slaughter house by-products, inedible meats and fish, poultry by-products, cereals, refrigerators, meat grinders, mixers, trucks, wire, lumber and other supplies beneficial to the national economy, plus several thousand working people.

In my capacity as an officer of the National Board, it has been my experience to know mink ranchers in every section of the United States where much mink farming exists, and I know how desperate the situation is with them. They have lowered costs every way they can. Their only hope and prayer now is for our

government to do something to stop the excessive flood of duty free imports from coming into our market.

In the earlier and more prosperous years of mink farming, it attracted the attention of people in other nations, especially the Scandinavian countries. They visited mink ranchers, learned our methods and bought thousands of mink breeders. This was especially true of breeding stock promoters from Scandinavia who bought in the United States and Canada and sold them in Europe. The sellers were a few mink breeders in the United States and Canada who valued the dollar then more than they valued their economic security later. This practice was frowned upon by the large part of mink breeders in the United States and Canada, but it was legal and there was nothing that could be done about it except voice our disapproval.

The people in the four Scandinavian nations were quick to recognize opportunity in mink breeding. With the assistance of breeding stock promoters, breeding stock was sold to start thousands of mink farms in Norway, Sweden, Finland and Denmark and some in other European nations and Japan.

In the words of a Scandinavian mink farmer to me a few years ago, "We like mink farming because it uses very little of our land, uses our labor and produces a product we can sell in the United States, even under your prices, yet for a profit to us and get the American dollar."

The U.S.A. has lost considerable in the balance of trade the last fifteen years by buying abroad many millions of mink furs that could have been raised in the United States. When we of the National Board had our quota bills introduced a year and a half ago, we thought a quota of 40% of domestic consumption would be protection enough. Now with the further demoralized condition of our market and the extremely low pelt prices prevailing, we doubt if it is protection enough and feel that a quota of 30% of our national consumption would be more in accord with the seriousness of the conditions of U.S. mink markets.

Gentlemen of the Ways and Means Committee, this is no false alarm. Mink ranchers are losing about \$4.00 on every mink pelt produced. They have done all they can for themselves by cutting operating costs, advertising their product (on which the Scandinavians get a free ride), improving marketing conditions, etc. without decisive results.

An International Conference in 1970 to try to work out a voluntary agreement helpful to both sides was a complete failure. Voluntary negotiations have failed. The Scandinavians were unwilling to consider anything that would reduce their shipments to the U.S.A.

We of the National Board of Fur Farm Organizations are asking you to save this fine industry, so typical of American Free Enterprise from ruinous foreign competition. It is their only hope left.

Thank you for your kind attention.

Mr. VANIK. In view of the fact that we have to respond to a rollcall, I will ask that we stand in recess for a few minutes.

In the meanwhile, the gentlemen who will testify next can take their places at the witness table. That will be Gen. J. Cal Courtney and Dr. Robert R. Nathan on behalf of the Mexican American Association.

We will stand in recess.

(Whereupon, a brief recess was taken.)

Mr. VANIK. The committee will resume.

I might say there is a gentleman who would like to simply offer up his statement.

The Chair at this time will recognize Mr. James R. Sharp, on behalf of the Imported Hardwood Producers Association.

STATEMENT OF JAMES R. SHARP, COUNSEL, IMPORTED HARDWOOD PRODUCTS ASSOCIATION, INC.

Mr. SHARP. Mr. Chairman, I have filed with the committee office a statement on behalf of the Imported Hardwood Products Association, Inc. I do not think it necessary for me to stay here and present the statement.

I should like to have it incorporated into the record.

Mr. VANIK. Your statement is accepted for the record, without objection.

(Mr. Sharp's prepared statement follows:)

PREPARED STATEMENT OF IMPORTED HARDWOOD PRODUCTS ASSOCIATION, INC.,
PRESENTED BY JAMES R. SHARP, WASHINGTON COUNSEL

SUMMARY

The Imported Hardwood Products Association, Inc., is an organization made up of members engaged in trade in hardwood lumber, logs and plywood. In the aggregate its members' foreign trade totals many millions of dollars. That trade is largely with lesser developed nations.

The Association generally favors unrestricted foreign trade. It believes that the United States as an enlightened world leader in finance, trade and political affairs must formulate, carry out and promote among other nations, a free trade policy.

It advocates the adoption of the Administration's foreign trade proposals subject to the modifications and additions proposed in the recent testimony before the Committee by the Chairman of The Committee For A National Trade Policy.

A moderate relaxation of the escape clause would appear appropriate. A more liberal relaxation of the provisions relating to adjustment assistance would also seem appropriate.

STATEMENT

My name is James R. Sharp. I am the Washington Counsel of the Imported Hardwood Products Association, Inc., with Executive offices in San Francisco, California. I and other representatives of this organization appeared before this Committee on prior occasions urging that the nation's free trade policy, which has prevailed for so many years throughout Democratic and Republican Administrations alike, not be reversed. I appear here today to again urge that policy.

An uncharted sea is a dangerous one. So are seas filled with charted shoals. In a manner of speaking, foreign trade is a charted sea. Some years ago the nation reversed its course in the international trade sea by the adoption of the Smoot-Hawley Tariff Act. The shoals on which that Act sent the ship of state were disastrous. We learned our lesson and slowly but surely, through enlightened leadership in both the Democratic and Republican Parties, reversed the course.

For a period of nearly forty years now we have lowered tariff rates and barriers, simplified our customs procedures and by other means moved international trade toward our U.S. model of free and open interstate trade. We have pursued this policy in order to benefit ourselves and all nations in the world who would cooperate in lowering restrictions on international commerce.

Jealousies, cartels, monopolies, chauvinism and differences in standards of living, wage levels and the economic development of various nations have kept the major trading nations from accomplishing a truly free trade community of nations. But we have moved toward the goal, as I have said, slowly but surely.

Our Association is made up of over forty regular members engaged in the conduct of a major international trade—the importation largely from underdeveloped nations in the Far East, South America and Africa of hardwood logs, lumber and plywood. We also have as associate members a large assortment of business organizations who facilitate that trade. These include banks, shipping companies, port authorities, customs brokers, insurers, manufacturers, processors, distributors and others who play a vital role in the movement of hardwood raw and finished materials from the manufacturers and producers abroad to the consumers in the United States. In the aggregate the business of the regular members of the Association and its associate members totals many millions of dollars. Many of the associate members are engaged in both phases of foreign trade, the export side as well as the import side.

The widely diversified group of businessmen and organizations which make up the members of our Association have one common goal. It is to keep the

channels of foreign trade as free as possible of shoals which may wreck it, which may slow it, which may interrupt it or which may make the two-way flow of the trade stream difficult or impossible.

We have no immediate problems that we know of about which we need to complain to this Committee. We appear here for two purposes.

A. We urge our stated philosophy of international trade on the members of this Committee. We hope that the Committee will adopt, and urge upon the entire Congress, a national free trade policy designed to develop a maximum flow of goods and people between nations large and small, rich and poor.

B. We support the Administration's trade proposals, subject to the modest changes and additions which have been urged on this Committee by the Committee For a National Trade Policy in the testimony of its Chairman, Mr. Charles P. Taft, presented on May 18, 1970.

In this connection, we fully endorse that Committee's recommendations relating to changes in the provisions of the present escape clause and adjustment assistance provisions of the law. However, we particularly emphasize the need for liberal application of adjustment assistance, whenever our broad national interests are found by the President to dictate the necessity of permitting an unusually high volume of imports to compete with domestic producers or industries. But we are convinced that in the serious situation in which the home and commercial construction industry finds itself, supplies of foreign produced wood products must remain available to provide the varieties not available from domestic sources and to provide the competition price wise that proper inflation controls require under present economic conditions.

Our nation has been a leader in establishing world policies in economic, fiscal, trade and other spheres. If it is to fulfill its destiny, it must continue to fill the role. If it is to fill that role in the area of foreign trade, it must design and carry out a program which is enlightened, imaginative, realistic and forward looking.

We are part of the free world. Because it is to the best interests of our nation, our hemisphere, our allies, and the community of nations in which we must live, we must support the unshackling of trade between nations on as broad a scale as we have done between our fifty states.

The products the regular members of our Association import are utilized largely in the housing industry—an industry that has been devastated by current economic conditions and lack of financing at reasonable costs. Domestic suppliers of wood products, softwood and hardwood alike, have been disproportionately affected by the current tight money situation and the prevailing high interest rates. But we have faith in the future if this Committee and the Congress do not turn the clock back in the field of international commerce.

In conclusion, we trust this Committee will lead the way by the legislation it reports out to a new, dynamic and forceful trade policy—a positive one—a meaningful one—one which will not only leave our own markets as unrestricted as possible but one which will force other nations to remove the shackles with which our trade with some of them has become encrusted.

Mr. VANIK. Thank you, Mr. Sharp, for your statement. We certainly appreciate it.

(The following was received for the record:)

STATEMENT OF HARDWOOD PLYWOOD MANUFACTURERS ASSOCIATION, ARLINGTON, VA.

The Hardwood Plywood Manufacturers Association is the national trade association for hardwood plywood manufacturers in North America. We have 110 members in 30 states, composed of the leading producers of hardwood plywood and includes among its membership companies employing as many as 1,500 employees, as well as small manufacturers employing as few as 12.

Hardwood plywood is a laminated panel made of an odd number of plies of wood placed at right angles to adjacent plies. Hardwood plywood is identified by the name of the wood used in the face veneer. Automation has not significantly reduced the number of employees in the industry, and while modern equipment is an important factor in production cost reduction, labor is still the largest single production cost.

The majority of the workers in the hardwood plywood industry are composed of unskilled or semiskilled workers who have very little job mobility and can

least afford to lose their employment. A large number of our members are located in the Southern part of the United States and increases in the minimum wage rate have directly and substantially increased their costs.

After the GATT negotiations of 1950, the duty on plywood imports, other than birch, alder and red cedar, was reduced from 40% ad valorem to 20% ad valorem. This 50% tariff reduction came at a time when the modernization and rehabilitation of foreign plywood mills was being financed in part by United States foreign aid funds.

While we were building new facilities for our competitors, imports of hardwood plywood into the United States swelled from 58,000,000 square feet surface measure in 1950 (representing 7% of domestic consumption) to 618,000,000 square feet surface measure in 1955 (40% of domestic consumption). At that time the Hardwood Plywood Manufacturers Association had a U.S. Tariff Commission Escape Clause hearing and were denied relief.

In 1959, we filed another Escape Clause complaint because imports had risen further to 1,318,000,000 square feet surface measure, amounting to 57% of domestic consumption. Again we were denied relief because, the Tariff Commission reasoned, a new market had been created as a result of new, lower priced imported hardwood plywood.

Imported hardwood plywood continued to flood our domestic market until last year (1969) they succeeded in capturing 70% of total domestic consumption. Imports for the year 1969 were 4,290,156,000 square feet surface measure.

Conversely stated, the domestic manufacturer had 93% of the hardwood plywood market in 1950 and, less than twenty years later, as a result of the impact of imports, the domestic portion now stands at 30%—a loss of 63% of the hardwood plywood market.

That there has been injury to our industry as a result of imports is beyond dispute. Eighty hardwood plywood mills have ceased operation since 1953. Many domestic manufacturers have remained in business only as a result of turning to the production of specialty hardwood plywood products; however, this route is also fraught with difficulties, because the importers also invade the specialty product markets once they are established.

Today, for example, the Japanese can buy a walnut log in this country, ship it to Japan, make walnut hardwood plywood and ship it back into this country to be sold at a price lower than domestically produced walnut hardwood plywood. It is impossible to cope with such competition.

HARDWOOD PLYWOOD: U.S. CONSUMPTION, MARKET SHIPMENTS, AND IMPORTS, 1950-69

[In thousand square feet, surface measure]

Year	Consumption	Market shipments	Ratio of imports to—	
			Imports	U.S. consumption (percent)
1950	811,000	753,000	58,000	8
1951	872,000	805,000	67,000	8
1952	880,000	795,000	85,000	11
1953	1,038,000	819,000	219,000	27
1954	1,181,000	755,000	426,000	56
1955	1,552,000	934,000	618,000	66
1956	1,583,000	887,000	696,000	78
1957	1,632,000	791,000	841,000	106
1958	1,711,000	804,000	907,000	113
1959	2,295,000	977,000	1,318,000	135
1960	1,865,000	850,000	1,015,000	119
1961	2,186,000	1,089,000	1,097,000	101
1962	2,670,000	1,231,000	1,439,000	117
1963	3,154,000	1,534,000	1,620,000	106
1964	3,668,000	1,721,000	1,947,000	113
1965	3,963,000	1,832,000	2,131,000	116
1966	4,330,000	1,776,000	2,544,000	144
1967	4,193,000	1,663,000	2,530,000	152
1968	5,616,000	1,778,000	3,838,000	216
1969	6,090,000	1,800,000	4,290,000	238

¹ Estimated.

Source: U.S. Department of Commerce, Bureau of the Census.

U.S. BUREAU OF LABOR STATISTICS, WHOLESALE PRICE INDEX (1957-59=100)

Year	Hardwood plywood	Birch plywood ¹	Gum plywood ²
1950.....	96.7	96.4	96.7
1951.....	105.8	103.9	106.6
1952.....	96.6	102.0	92.9
1953.....	103.4	107.6	100.5
1954.....	95.7	101.9	91.5
1955.....	97.9	103.5	94.1
1956.....	99.9	103.6	97.4
1957.....	99.0	99.8	98.4
1958.....	99.7	100.0	99.6
1959.....	101.4	100.3	102.1
1960.....	102.8	101.2	103.8
1961.....	101.4	98.9	104.4
1962.....	97.8	94.7	103.8
1963.....	97.3	93.2	104.0
1964.....	98.5	94.4	104.9
1965.....	98.2	94.1	104.9
1966.....	99.0	95.0	105.8
1967.....	97.7	92.7	107.8
1968.....	98.1	93.3	108.5
1969.....	101.6	97.1	109.8

¹ Birch $\frac{1}{4}$ inch standard panel (specifications as below).

² Gum $\frac{1}{4}$ inch standard panel grade 1-3 or 1-4, type II glue, 3-ply, 48 inch by 96 inch car lots, manufacturer to wholesaler or dealer, f.o.b. factory, M per square foot.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

[From the New York Times, May 12, 1970]

SOUTH KOREA'S ECONOMY BOOMING WITH CHEAP LABOR

(By Philip Shabecoff)

PUSAN, South Korea, April 24—Running 24 hours a day on three shifts, the big Tong Myung plywood factory in this port is a fitting symbol of South Korea's increasingly vital economy.

It also is a vivid example of how the Korean boom is supported by the willingness of South Korean workers to work long hours for little pay under harsh and sometimes dehumanizing conditions.

Tong Myung has a capacity of 140 million square feet a month and is said to be the world's biggest plywood producer.

Starting from no exports a decade ago, it now ships nearly \$30-million worth of processed wood abroad annually—exports that play a key role in South Korea's rapid economic expansion.

Inside the cavernous plant, it is dimly lit dank, and smelling.

The air is filled with fine sawdust and reeks of formalin fumes. A visitor's eyes begin to burn and water uncontrollably within a few minutes.

The factory's 5,000 workers, many of them young girls, work 10 or 11 hours a day, six days a week. The work is hard and monotonous.

For their labor, the girls working at Tong Myung receive about \$32 a month. Men, who do heavier work, get about \$48 a month.

Jhong Jae Young, an 18-year-old girl with broad, pink cheeks and shy black eyes, joined the factory two months ago and works as a checker.

GRATEFUL FOR JOB

Pusan is far from her home in Chinju, but her father is dead and she had to help her mother and seven brothers and sisters.

Half of her \$32 monthly wage she sends home and another \$12 goes for her room and meals at a boarding house. The remaining \$4 is for clothes and other personal items.

"The work is not so hard," she said. "I am glad that I can earn money."

What did she do for fun? she was asked. Dance? Go to the movies?

"No," she said, her voice barely above a whisper. "Nothing."

South Korea's evolving economic miracle is built largely upon the willing shoulders of workers such as John Jae Young.

A rugged, mountainous land with few natural resources, Korea's most valuable commodity is manpower.

It is cheap labor, of course—cheap enough to produce low-cost products for competitive export markets and cheap enough to attract foreign manufacturers to set up plants here.

But it is also labor that is being increasingly recognized for its intelligence, ability to learn, literacy and capacity for hard work amid conditions that would be unacceptable in most industrialized countries.

George A. Needham, representative director of the Motorola Company's electronic component assembly plant on the outskirts of Seoul, told visitors to the bright, modern factory that total production costs in Korea were one-tenth of costs for similar production at Motorola's plant in Phoenix, Ariz.

He also noted that it took two weeks less time to train Korean girls to assemble semiconductors and transistors than to teach American girls the same job. "The girls here are more motivated," explained Mr. Needham. "Life is tough in this country. These people really need this work."

South Korea's energetic workers have spurred an economic boom that has seen the nation's gross national product—the value of all goods and services—jump from \$2.3-billion to \$6.1-billion between 1959 and 1969.

In the last five years, Korea's GNP has grown by an average annual rate of 12.6 per cent, a rate exceeded not even by the vibrant Japanese economy.

But South Korea still is not a rich country. Per capita GNP is only \$195 a year for the country's 31 million people.

Although South Korea's workers undoubtedly have improved their lot in recent years as far as material existence is concerned, they seem to have lost something, as well.

Mr. VANIK. Is there anyone else scheduled to testify later on who would like to submit their statement in this way?

Apparently not.

The Chair at this time will recognize Gen. J. Cal Courtney and Dr. Robert R. Nathan, on behalf of the American Mexican Association.

STATEMENTS OF GEN. J. CAL COURTNEY, PRESIDENT AND ROBERT R. NATHAN, AMERICAN MEXICAN ASSOCIATION; ACCOMPANIED BY WILLIAM BLUM OF THE AMERICAN MEXICAN ASSOCIATION; AND H. P. BRAMBLE, ASSOCIATE OF MR. NATHAN

Mr. COURTNEY. Mr. Chairman and members of the committee, my name is Cal Courtney. I am president of the American Mexican Association. This is a trade association composed of manufacturers, employees, and other persons who live in the common border region of our country and that of Mexico. Our primary interest is in Mr. Mills' bills to do away with the provisions of 807 as far as our appearance before this committee is concerned.

I feel, frankly, in view of the rather broad based approach that the committee is taking, of which this is apparently a very small part, it is hard to determine just how relevant what I will say will be because we can't see what position the committee is taking on the overall picture as it is now presented. However, I wish to state that for our association directly and indirectly we represent 3 million Americans along the border all the way from Brownsville, Tex., to California and the Pacific Ocean. Our interest insofar as this particular provision of the tariff schedule is concerned is very obvious. It is economic. We do not under any circumstances feel that we represent any one particular industry, because there are many industries who are taking advantages of the provisions of 807 to assemble goods in Mexico and return them to the United States.

These, incidentally, are components manufactured in the United States by American labor and are returned to the United States after the labor-intensive assembly is completed in Mexico.

I have heard, not only before this committee, but also at the Tariff Commission, and over many years, my friends who represent organized labor and some members of management of certain industries cry "runaway plants, runaway jobs". We feel that the facts as far as 807 is concerned do not support this contention.

In addition to being president of this association. I also am executive director of the Greater Laredo, Tex., Development Foundation, which is a small, local community-owned and financed organization whose sole purpose is to upgrade our economic base by making it reliable, relying on something other than the cattle industry and the tourist trade.

Within the last 18 months, as a result of what is provided under 807, we have created some 675 new jobs in Laredo, Tex.—and I want to emphasize this. These are industrial jobs. They are jobs that pay considerably more than our stoop-labor people who were doing this type work or who were on relief or welfare. Furthermore, as an example of how this works and what it would mean to us, as to all communities—and you gentlemen are aware of this—you have heard of runaway plants. I heard it when the textile industry first left New England and came to the Piedmont area of the South. I have heard it as other industries moved into the home State of the chairman of this committee. This is a country of movement and of runaway. Everything good that has ever happened to this country was because somebody was running away from something they didn't feel was equitable, or where they had a better opportunity somewhere else.

This was true when the Founding Fathers or the first people landed at Plymouth Rock. It has been true as the West has been developed. So there is nothing new in this.

Obviously, we are concerned with anybody who is denied or loses a job because someone moves an operation. On the other hand, we must selfishly say to you that we are very happy that if somebody has to be out of work it is not the 675 people we have created jobs for in Laredo by the use of this program, because these people were hungry, too, just like the person might be hungry in New York, New England, or anywhere else.

We feel Dr. Nathan, who is an expert in economics, can more readily talk from a technical point of view than can I. I can only say this to you, that we estimate a minimum of 50 cents and perhaps as high as 80 cents in some areas of all the wages that are paid in Mexico coming back and are spent in the United States for U.S.-produced products. The nature of the economies of the two areas makes this a fact, makes it necessary.

We know that there are in excess of 3,000 jobs along the border on the United States side that have been created as a result of the so-called twin plant concept.

There are approximately 20,000 jobs that have been created on the Mexican side of the border, of which this money, as I say, 50 to 80 cents, is spent in the United States. It doesn't seem to me that there is any justification on the part of our friends from the organized labor

field or in some industries to say that American labor is not benefiting. We feel that all the facts will show that there are jobs that would have gone somewhere else. We take the position that part of a loaf is better than no loaf at all, as far as labor is concerned.

How this ties into the overall problem and all of the bills that this committee is considering at this time, I must admit I have no expertise on, and I will ask Dr. Nathan to move into that. If you will hear him from now on out, I will appreciate it.

Thank you.

Mr. VANIK. Mr. Nathan.

STATEMENT OF ROBERT R. NATHAN

Mr. NATHAN. Thank you, Mr. Chairman and members of the committee.

My name is Robert R. Nathan. I am president of Robert R. Nathan Associates, Inc., an economic consulting firm, and am appearing here on behalf of the American Mexican Association. This association is composed of individuals and enterprises doing business along both sides of the border between Mexico and the United States.

Mr. Chairman, I would appreciate my testimony being introduced into the record in full, and I will merely summarize it, if that is all right.

Mr. VANIK. Yes; without objection, that will be done.

Mr. NATHAN. Also, I would say, Mr. Chairman, that this testimony is not unrelated to a rather extensive study that my associates and I made under the title of "Industrial and Employment Potential of the United States-Mexico Border." This was a publication, of which I have here a copy of the Economic Development Administration of the Department of Commerce. I am sure copies can be made available to this committee. The purpose of the study was to analyze economic possibilities and employment prospects in this very critical area.

While the study did not relate directly to section 807 or its implications, nonetheless it is very pertinent to that subject.

Let me briefly summarize by stating first that my personal position as an economist has been one of encouraging and advocating a more liberal trade policy which would lead to enlarged trade between the United States and beneficial to the United States and other countries around the world.

Also, it is my belief that enlarged trade between the United States and the developing countries in the world is of particular importance. Every economist concerned with development now realizes that enlarged trade opportunities for the emerging nations is a very important factor in their growth and accelerating development. I believe that section 807 plays a significant role in this particular area for three reasons, which I would like to explore very briefly.

First of all, I think that the most important aspect of section 807 is the opportunity it affords to move toward more efficient economic operations in our society through dividing production into logical parts. By and large, we normally tend to deal with a commodity in its totality; namely, a product wherever it is produced, whether with components from one country or another or assembled in one country

or another. Therefore, when a product or commodity competes in the international market, where there are quotas, restrictions or tariffs, they are applied in terms of the total commodity itself. Section 807 affords an opportunity to separate that product into the components for which one country has special advantages and on which it can really apply its specialized capability and not those components where it has a disadvantage.

In essence, what section 807 offers to American producers is an opportunity to produce those parts of a product where this country has special advantages due to our technology, due to the scale of market, due to the location of the industry, and other factors, and then to combine that special capability or special advantage with low-cost inputs from elsewhere where the wage rates and the skills are substantially lower than in the United States.

It is my conviction that, if this breakdown of specialization did not exist and were not possible, and if section 807 were eliminated, a considerable number of products which are imported into the United States with U.S. components would not be imported into this country with any American components, but would be produced abroad 100 percent.

What I am saying, in other words, is that by functioning under section 807 we are able to continue to produce components, to send them abroad and have them come back into the United States, along with the rather unskilled element of assembly. If this were not true, then I think we would lose the total market on most of these products.

This is very significant, because it provides a number of advantages to the United States. First of all, bringing in products for which we export the components and have the assembly done abroad at lower costs serves in a very important measure as an anti-inflationary device. I think one needn't look deeply into the American economy today to conclude that anti-inflationary measures of any nature which are effective are tremendously important. We have sought to stop or slow down the pace of inflation by aggregate monetary and fiscal approaches which are commonly recognized now, at least to date, as having been relatively ineffective. We have not achieved a slowdown in the rate of price increase.

The bringing in of lower cost products certainly has an anti-inflationary effect in a number of respects. It reduces the cost to the consumer. It certainly has a healthy competitive impact on our own producers. Also it helps in terms of increasing our export potentials over time as a result of that competitive impact.

Most important of all under section 807 the assembly that is undertaken is generally undertaken in the less developed countries. If there are any markets for U.S. products in this world where American imports are transrated rather quickly into American exports, it is in the underdeveloped or developing countries. They seek to earn foreign exchange for one purpose; namely, in order to finance their essential imports. When they are able to earn from the United States, that affords them an opportunity to buy from the United States. So I believe that, in terms of efficiency, in terms of anti-inflationary measures, and in terms of development, we have a very important vehicle here.

The major issue that arises here, and that is brought up over and

over again, has to do with employment. I listened to some of the discussions here today. I, too, am very much concerned now, and always have been with the problem of employment and unemployment. I have testified many times before many congressional committees, this one and others, on the subject of high levels of employment. I would like to emphasize that in my judgment trade is not one of the most important elements in the employment situation of the United States. I would be naive if I said there is a positive correlation between trade and employment. Nonetheless it is true that many times we have had high employment in the United States when imports have been very expansive and very aggressive, and, on the other hand, we have had a lot of unemployment and low employment when imports have been very low.

It would be unfair to say that, therefore, high employment goes with low imports or that low employment goes with high imports, or the converse, with unemployment. But we live under the Employment Act of 1946 where our overall policies really affect the functioning of this economy. In my judgment, it is unfortunate that people are inclined to stress an adjustment problem that derives from increased trade, when that adjustment problem is infinitesimal in the context of our total society's functioning.

We had, for several years, unemployment running at the rate of 3.5 percent, and yet there were displacements, with accompanying problems of adjustment in many sectors, in many industries and in many localities. But in the aggregate these were a relatively insignificant factor in our total employment record. I believe very strongly that increased trade is a contributor to employment and not a contributor to unemployment. This does not mean, of course, that there will not be some people in some places who will be hurt by enlarged trade. This is inevitable. But this is also a factor which is inevitable in terms of economic development, because as technology enhances, expands, grows and develops there are going to be displacements.

I recall in the United States, Puerto Rico and other places when we had almost nothing but handcraft industries. They disappeared a long time ago, and a lot of people became unemployed at that time. But as our economy developed and expanded, as modernization took place, other jobs of higher pay were created.

I couldn't help but hear what Congressman Burke said about Massachusetts and New England. That region is so much better off today than it was 30 years ago, with very low-wage, unskilled workers in labor-intensive industries than, as compared to today, with its high skill, high wage, highly productive industries. Surely, there is some displacement in the process, but this is part of economic development and economic growth. The horse and buggy artisans and the horse-shoe blacksmiths were displaced as the automobiles came along, but this was the price of progress.

I have one or two words of a very special nature on this particular subject of section 807.

The problem of 807 applies with great emphasis to the Mexican border. There, in the northern part of Mexico, there is a very substantial number of unskilled people. It is an economy, which, in a sense, is distinct in many ways from the rest of Mexico. These people are far

away from industrial centers of that country. The transportation between the industrialized part of that country and the border area is long and very costly. In some respects similar characteristics run along the United States side of the border which is rather far away from the Northeast, the West, and Midwest. These economies across the border complement each other.

As a result, we have a relatively large cross-border trade. We believe that in considerable part this is attributable to section 807, although the full details are not available. Section 807 permits trade in which components made in the United States are assembled in Mexico by people with lesser skills. The important point to remember is that the money, as General Courtney said, which goes across to Mexico, comes back to the United States. The estimates run around 45 percent to 70 percent or more coming back literally within a week. A great many Mexican citizens across the border come over to the United States and buy all kinds of goods and services which add to employment on the American side at much higher wages and, of course, which contribute substantially to the improved employment.

There is no doubt that the economic activity on the American side of the Mexican border would suffer severely if there were a reduction or elimination of this special provision.

One other thing I would emphasize very strongly is that even though section 807 serves very usefully to provide jobs for Mexicans on the other side, Mexico has a trade balance with the United States which is favorable to the United States. We sell more goods to Mexico than Mexico sells to us. It is true that American tourists spend more money as tourists in Mexico than Mexicans spend in the United States. But even so, about 80 percent as much is spent in the United States by Mexican visitors as is spent in Mexico by U.S. visitors.

When one takes the aggregate of goods and services, we have a favorable payment balance with Mexico which serves to stimulate exports from the United States. We feel that any consideration of eliminating section 807 would be highly detrimental to our total trade there, because it will reduce the earnings Mexico has from the United States. Therefore, in turn it will reduce the purchases of goods and services from the United States by people in Mexico.

Finally, there is one very, very important problem. Along the Mexican border there is a very substantial portion of Mexican-Americans, who are among the most poverty-stricken, and who are among the groups in this country with the highest rates of unemployment. Many of them move out of that area because of limited job opportunities. They migrate, and, unfortunately, land in the biggest cities of the Southwest, the Midwest, the Northwest, and most recently, even further away. They end up in the poorer sectors of those American communities which aggravates the already critical urban poverty problems. We have no doubt whatsoever—and this is developed in the study I mentioned before about the industrial potential of the United States-Mexico border—that if section 807 were to be eliminated, and trade between the American side of the border and the Mexican side of the border were minimized as a result of that, this would further aggravate the problem of employment and jobs in that particular area.

Finally, I just want to say one thing, that section 807, in my judg-

ment, is going to be an increasingly important factor, primarily because competition between the developed countries in the world, is going to intensify. If we are able to break products down into those categories or processes in which we have an advantage and those where we don't, I think we can preserve a great deal of trade which otherwise would be lost.

That briefly, summarizes the testimony. I hope, therefore, that this committee will not recommend anything which would interfere with a continuation of the important and positive contributions made by section 807 to our trade and our development.

(The prepared statement follows:)

PREPARED STATEMENT OF ROBERT R. NATHAN, ON BEHALF OF THE AMERICAN-MEXICAN ASSOCIATION

Mr. Chairman and Members of the Committee. My name is Robert R. Nathan. I am President of Robert R. Nathan Associates, Inc., an economic consulting firm, and am appearing here on behalf of the American-Mexican Association. This association is composed of individuals and enterprises doing business along both sides of the border between Mexico and the United States. They have a vital interest in promoting greater economic exchange between this country and Mexico. The provisions of Section 807 of the Tariff Schedule of the United States of America (TSUSA), like those of 806.30 and other trade-promoting concessions, have a critical impact on that trade and on the economy of the border region.

My presentation here today relates primarily to Sections 806.30 and 807 of the TSUSA in the context of Mexican border problems. Our firm carefully analyzed many aspects of the economy of that region in the course of a study entitled, "Industrial and Employment Potential of the United States-Mexico Border." That study, completed late in 1968, is available from the Economic Development Administration of the U.S. Department of Commerce. Doubtless the staff of this Committee has had access to it. The study was not addressed to the question of Section 807 as such. However, the observations made on the economics of the area are pertinent to the case being considered here.

It is not feasible in this brief testimony to develop the full economic rationale for the observations and conclusions I will set forth, but I will do my best to summarize them clearly.

There are special aspects of our relations with Mexico and of the region along the common border between the two countries that make the problem of Section 807 unique in its application to that area. Also, the economic principles that apply to that trade, and that affect the economic and international interests of the United States, are generally applicable to trade with many countries. The provisions of the Section are steps in the direction in which we believe our trade policy should tend.

I have long been an advocate of a generally expanding and more liberal trade policy leading to enlarging the trade of the United States. Greater trade is for our economic benefit and for other nations as well. It is especially essential to allow the less developed countries of the world an opportunity to improve themselves through trade. We cannot afford to ignore the growing gap between the industrialized nations and the LDC's any more than we can close our eyes to the poverty and discrimination in our own country. Nor can we close our eyes to the role of export markets as a major element in accelerating the growth of the economically emerging nations. Although not designed for this purpose, TSUSA's Section 807 and its companion Section 806.30 have become ingenious devices to serve both of those objectives, namely trade expansion and a boost to the trade opportunities of the LDC's.

One of the most serious economic problems we face today is the pervasive and stubbornly persistent inflation that is disrupting our economic stability and progress. Imports can be a useful weapon with which to combat inflation. We have had little enough success with the other measures that have been tried to bring inflation under control. I would like to see a deliberate use of trade policy to slow the rise in our prices and costs, and to help break the inflation spiral. If this is not possible, at least it does not make sense to embark on a new wave of protectionism which could only exacerbate the problem.

It will be argued that we will further endanger our balance of payments if we allow more liberal imports. That might be true in the very short run, but I believe the opposite is true over a reasonable period of time. Continuing inflation will tend to deteriorate our competitive capabilities and it is the most serious threat to our balance of payments. We need access to all the low-cost inputs that are available in order to keep our costs and prices down and to remain competitive in world markets. Trade under Section 807 has the advantage of giving us access to low-cost inputs and fighting inflation without putting pressure on our balance of payments.

Many of the imports resulting from this tariff provision come from less developed countries. Most of these countries want to buy more from the United States. With few exceptions the dollars they earn through trade come back to us. We know this is true with respect to Mexico. Even when this direct reciprocity does not take place the components exported under Section 807 tend to assist our balance of payments.

Section 807 is in the interest of the United States because it promotes specialization and economic efficiency. It permits American industry to concentrate on the tasks it does best—the more sophisticated operations in production—and to combine them with the abundant and generally less skilled labor of other friendly nations to achieve lower costs. Instead of limiting the tests of competition to finished products, Section 807 permits the benefits of comparative advantage to apply to components of portions of the productive actions entering into finished products. The results benefit everyone; the enterpriser who finds that he can thereby stay in business, the consumer who finds his purchasing power goes farther, and the laborer who finds that he does not have to chase a constantly rising cost of living that he cannot catch up with.

Continuation of this Section does not mean more unemployment for this country. Testimony before the Tariff Commission revealed that firm after firm was able to maintain a considerable part of its production in the United States by combining domestic operations with foreign assembly under Section 807. The alternative for most of them was to close their domestic operations and move totally to overseas plants, or for the United States to import 100 percent of the foreign product for distribution here. In almost no case would closing the foreign affiliates now operating under 807 open opportunities for purely domestic producers to expand. It is significant that almost no producers appeared to complain of this tariff item. There may have been some such testimony that we missed, but if so, it was overwhelmed by the number of industries that were in favor of retaining this measure.

Various operations have been undertaken under Section 807. Some of them involved moving the assembly operations overseas, or to Mexico, but retaining fabrication at home. Some opened new plants abroad without reducing domestic employment. Since there must be some domestic fabrication in connection with imports under these reimport provisions, there may well have been some net new employment created. It was not possible to tabulate the box score on jobs, but our judgment is that the number of jobs saved or created in these industries by Section 807 is certainly greater than the jobs available without this Section.

Ultimately the question comes down to whether or not imports from countries with lower labor costs than the United States cause a net reduction in jobs and an increase in unemployment in this country. We are not now talking about oppressive or unfair wage standards that deprive labor from being paid reasonably for its productivity. No matter what fair labor standards are adopted there can be differing levels of compensation corresponding to differing levels of skills or varying ratios of capital and labor. It is economically sound that some countries concentrate on capital-intensive industries while others do the labor-intensive tasks. Trade between such nations or regions does not cause unemployment in either.

The predictions of disaster from relaxing trade barriers have never been borne out. It is not necessary to argue the basic economics of foreign trade before this Committee. You are well aware that we have had low unemployment with high imports and high unemployment with low imports. These are not casual relations, but seldom can one trace and place the blame for excessive unemployment on a liberal trade policy.

Full employment depends on a great many factors in the economy and a great many policies, as embodied in the Full Employment Act. Among these policies

the expansion of trade is fairly important. But unemployment attributable to the impact of imports has been rather minor. I would be the last to say that unemployment should be ignored, no matter what the cause for unemployment might be, but to go the route of protectionism to avoid readjustment to a relatively few affected industries is like lowering the river instead of raising the bridge to let a ship pass.

THE US-MEXICAN BORDER AND 807 OF TSUSA

The provisions of Section 807 have become an important part of what has come to be known as the Mexico Border Development Program. The Program grew out of the spontaneous efforts of a number of people and organizations. It was not the result of a central plan originated by a single agency, but rather represents the felt needs of people living and working on both sides of the border.

Central to the Border Development Program is the recognition that cooperation and trade across the border are indispensable to the economic growth of both sides. The Mexican border towns and cities, being far removed from the Mexican industrial centers, offer limited market opportunities to Mexican plants. In spite of low Mexican wages, food and clothing are expensive there. If Mexicans living in the Northern Frontier Zone did not have access to supplies from the US side their cost of living would be oppressively high. The region is poor in resources and would not support anything like the present population without trade with the Americans. In return the cross-border trade is critical to the US citizens who live on the US side.

The US border counties and urban areas do not have the resources for highly advanced development, and are too far from the major US markets to support their constantly increasing populations at a living standard comparable to the average of the United States as a whole. Under present circumstances part of the population increase must migrate, mostly to interior cities of the nation. Part of this migration is made up of educated young people looking for better opportunities elsewhere and this constitutes a "brain drain." The greater part is made up of American citizens of Mexican ancestry (Mexican Americans) who suffer the greatest impact of unemployment along the border. There is a steady movement of Mexican Americans away from the border counties to the urban centers of the Southwest and especially to those in California. Some of them move even to the Northwest and Middle West. There they tend to settle in overcrowded slums with results that are well known.

Both the US and Mexican border areas could better support their people if economic activity across the border could be increased. The people on the Mexican side earn most of their revenue from the tourist trade from the US. In turn they engage in considerable retail trade with shops on the US side of the line. The Government of Mexico has recognized the need for this trade and it does not restrict an almost free flow of goods at retail across the border. This retail trade and the services needed to keep it going are the life-blood of the American border communities. There are, of course, other activities in the area, especially in San Diego and El Paso where US Government expenditures bulk large. For the majority of residents, however, the cross-border trade is the difference between economic growth and depression.

The establishment of new enterprises with added payrolls in the Northern Frontier Zone of Mexico has given an additional impetus to this trade. Many pay envelopes flow from plants established because of opportunities under Section 807. We do not know precisely the number of enterprises and employees involved, but they have been growing rapidly for several years. American management finds Northern Mexico attractive because it is relatively near to US markets, even though wages are not as low there as in some other countries. Supervision is easy and inventory pipelines are short.

A large share of the earnings from tourists and from factories in the Mexican Frontier Zone are spent on the US side. It is variously estimated that 45 percent to 75 percent of all dollars spent in the Mexican Zone find their way back to the US side in a few days. Moreover, the US border merchants accept Mexican pesos freely. In El Paso alone the banks return as much as \$50,000 in pesos a day to Mexican banks for redemption. Over the longer term more dollars come back from Mexico than are spent there because Mexico buys more from the United States than the United States does from Mexico.

The US balance of payments with Mexico illustrates some of the points we

have been making about the trade program, and especially about the effect of imports under Section 807. The attached table is taken from estimates prepared by the Department of Commerce of payments balances with Mexico since 1964. These figures show that the United States has had a favorable merchandise trade balance with that country of about \$400,000,000 per year. Imports of goods from Mexico have been rising but sales to Mexico have been rising by almost the same amount so that the balance has remained at about the same level. Mexico earns substantial amounts of dollars from expenditures made by visitors from the United States, but roughly about 80 percent is offset through purchases made by Mexican visitors to the United States.

We do not know precisely how much the border visitors from Mexico buy on the United States side because no customs declarations are made. However, total buying by Mexican travelers in the US is estimated by the Department of Commerce at about \$500 million yearly and the bulk of that is spent near the border. One big item in the shopping list of the Mexican visitors is clothing. The value of clothing they buy in the United States is probably several times the value added to clothing assembled in Mexico under Section 807 for export to the U.S.

We do not wish to emphasize too much that the bilateral balance of payments with Mexico is favorable because in multilateral trade the payments flow between any two countries is affected by many factors. But we do believe that when Mexico earns more from selling to the United States it has a tendency also to buy more here. The total demand for United States goods and services did not decline because new imports came in from Mexico under Section 807. We are confident that if adequate data were available with respect to other developing countries in which plants have been established to comply with this tariff provision we would find similar results in most of them.

I am aware that there has been a resurgence of the protectionist spirit in world trade in recent years. Our own balance of payments difficulties, together with the recent rise in unemployment, has provided an opportunity for special interests to blame these problems on the trade program and to demand retaliation against those who restrict our trade. I would be the last to say that we should meekly accept trade barriers against our exports. Yet, the path of mutual restrictionism has never proved to be a fruitful policy historically. We should look beyond annoying quotas, regulations, and other restrictions to see what can be accomplished toward greater trade within an aggregate set of policies and programs. Mexico has been criticized because it stimulates exports to the United States and at the same time refuses imports of these or similar commodities to its territories. But Mexico does allow many of these consumer goods to enter its Northern Zone as retail purchases, whereas it does not allow wholesale shipments and it restricts the market below the Northern Zone. Yet Mexico spends all the dollars it earns from us and more too for goods and services from the United States. We would gain nothing by preventing them from earning more and trading more with us.

Before I conclude I would like to say a word about the effect of Section 807 on Mexican Americans in our Southwest. These United States citizens of Mexican ancestry form an ethnic group which suffers greatly from discrimination, low incomes, and high unemployment. The economic and social problems involving Mexican Americans are growing. Many of the problems are intimately connected with the developments along the United States-Mexican border. One of the arguments used to support the repeal of Section 807 is that Mexican Americans lose jobs because of the competition from cheap labor across the border. This is a misconception. Those industries that locate in Mexico under Section 807 would have no interest in locating on the US side of the border if that tariff provision did not exist. Only rarely have plants moved from the US side of the border to the Mexican side and even less often has Section 807 been the reason. The misconception arises because of another problem which has been confused with that of Section 807. Many Mexican citizens holding immigrant visas to the United States work on the American side and return to the Mexican side regularly because living costs are cheaper there. They compete with Mexican Americans for jobs at several levels and so are blamed for low wages and unemployment in the area. This is the so-called "green card" problem, but it has no real relation to the situation under Section 807. On the contrary, Mexican Americans are one of the chief beneficiaries of the increased payrolls on the Mexican side of the border. Augmented incomes lead to more buying by Mexicans and

create more jobs on the American side. Greater employment on the Mexican side reduces pressures inducing Mexicans to cross over into the United States, legally or illegally, to compete for jobs on this side of the border.

SUMMARY

Imports under Section 807 of the TSUSA are in the interest of the United States because:

1. They improve the competitive position of American industry by allowing a more efficient combination of factors of production through joint utilization of American capital and advanced skills with lesser skilled labor from less developed countries.

2. They preserve jobs in the United States in those very industries that otherwise would be even harder hit by foreign competition, thus allowing a more gradual adjustment to future trade patterns by industries that could not otherwise survive.

3. They combat inflation, as do all imports, by bringing lower cost commodities to the American consumer.

4. They also tend to reduce costs by contributing to the competitive position of US industry generally and thus improving our export position.

5. They do not add to the balance of payments difficulties of the United States because they generate two-way trade with friendly countries.

6. They are consistent with the desirable objective of encouraging the development of the less developed countries through expanded trade opportunities.

7. They are an important element in our trade relations with Mexico which is one of our best trading partners.

8. They make a growing contribution to the border trade on which the communities on the United States side of the border depend heavily.

9. A reduction in that trade, or even a slowdown in its rate of growth, would cause the border communities of the United States to lag even farther behind the national average in income and employment than they do now. The impact would fall most heavily on the Mexican American citizens of the US who are the first to feel the effects of declining employment demand in the region. This would speed migration to the slum areas of interior cities and add to the serious problems there.

SELECTED U.S. INTERNATIONAL TRANSACTIONS WITH MEXICO, 1964-69

[In millions of dollars]

Transactions	1964	1965	1966	1967	1968	1969
U.S. receipts:						
Exports of merchandise.....	1,077	1,107	1,181	1,221	1,378	1,452
Expenditure by Mexican visitors to the United States.....	342	390	436	457	493	.....
Receipts from other transactions (net).....	365	33	81	-52	271	.....
Total receipts.....	1,784	1,530	1,698	1,626	2,142	.....
U.S. payments:						
Imports of merchandise.....	631	638	749	756	917	1,030
Expenditures by U.S. visitors to Mexico.....	490	540	575	590	630	.....
Payments on other transactions (net).....	521	182	114	120	133	.....
Total payments.....	1,642	1,360	1,438	1,466	1,680	.....
Net balance of recorded transactions ¹	+142	+170	+260	160	+462	.....

¹ Does not include transportation or film rental data which are not available from Mexico.

Source: Taken from unpublished data, U.S. Department of Commerce, Office of Business Economics, Balance-of-payments Division.

Mr. VANIK. Thank you for your fine statement.

Are there any questions?

Do you know whether 807 is used in connection with operations other than Mexico and Canada?

Mr. NATHAN. Yes; it is, sir. It is used in Korea and Hong Kong.

Mr. VANIK. Is that basically electronics?

Mr. NATHAN. Very substantially, though not exclusively. We do send out our complex electronic components there and the assembly is done abroad.

Mr. VANIK. Is there any other field that you can think of where it relates, other than Canada and Mexico?

Mr. NATHAN. There is the automobile industry, where parts are sent abroad.

Mr. VANIK. That is just Canada?

Mr. NATHAN. No; that is also with Germany.

Mr. COURTNEY. Mr. Vanik, let me add to this, if I may. There are a great number—I can't break it down into dollars or percentages at the moment—of plants that do assemble. For example, we cut on the American side, in Laredo, garments that are sold on the Mexican side that people wear on the slopes of Colorado to ski in, for example. I heard testimony today that the baseball glove industry, as an example, is extinct, for all practical purposes, in the United States, and this has been true. Within the last year a Massachusetts importer, really—because he didn't do any manufacturing there—has now opened a plant in Laredo, Tex., that employs at the present moment 56 people in the Laredo, Tex., side and approximately 100 people on the Mexican side.

Mr. VANIK. That wasn't my question. I knew that this was a situation that worked out advantageously, at least from the viewpoint of some people, as far as using Mexico for an assembly point, and also some operations in Canada.

My only inquiry was whether it was used in any other areas, such as assembling in Latin America.

Mr. COURTNEY. I understood your question to be whether it was any other products, other than electronics, Congressman. I misunderstood you.

Mr. VANIK. No; I was talking about like the Korean operation.

Mr. NATHAN. Mr. Bramble was the principal author of our report, on my staff, and he indicates that American firms do operate in other Caribbean countries, for assembly of clothing, for instance. We can try to bring together and submit a memorandum on that.

Mr. VANIK. I don't think it is that important. It was just a matter of interest.

Thank you.

Mr. GIBBONS. From your knowledge could you give me the price of stoop labor in the tomato industry down in Mexico? Do you know anything about the cost of stoop labor?

Mr. COURTNEY. Stoop labor in Mexico itself runs something like 30 cents an hour. They work a 9-hour day normally, on an average. That is for melons, strawberries, fruits, vegetables.

Mr. GIBBONS. Thank you.

Mr. BUSH. What are the unemployment figures in the Valley in Texas as along the border?

Mr. COURTNEY. It varies from time to time along the border. It is as high as 13.3 percent in Laredo and in Brownsville it is 10.7.

Mr. BUSH. Did I understand you to say if 807 were repealed it would appreciably increase the unemployment along the border?

Mr. COURTNEY. If it was repealed and it then became necessary to close the plants which the people who have them say it would increase unemployment percentage-wise at least 4 percent.

Mr. BUSH. In other words, these plants would close and it would not be as though you were creating more jobs. You would just have to shut down facilities, from what most of the manufacturers say.

Mr. COURTNEY. Yes, sir. Presuming of course, that is, as long as we are competing with exports particularly in the fields that are common along the border with the Orient and the other particularly low-wage countries.

Mr. BUSH. Given the just outrageously and unconscionably high employment rates in the Valley, who would be pushing to repeal this 807? Is there strong push along the border for this now?

Mr. COURTNEY. No, sir; not along the border. The push is coming from New York and Chicago.

Mr. BUSH. Are most of the working people along the border with whom your organization is in touch in favor of continuing this concept?

Mr. COURTNEY. I have not had anyone come in to tell me they would appreciate our closing them down, so they would go on relief.

Mr. BUSH. There is not a big thrust among labor organizations along the border to close them?

Mr. COURTNEY. I am sure there are bound to be some isolated people if members are not members of organized labor.

Mr. BUSH. What is the predominant workingman's employment in the valley? What has it been historically?

Mr. COURTNEY. It has been working in the fields.

Mr. BUSH. Is it not true automation is displacing an awful lot of these people?

Mr. COURTNEY. Probably 65 percent. The Migrant Council just last week reported not only in our area of the valley but as our migrants move north following the season, Wisconsin has said they want 10,000 migrants less this year than last year.

Mr. BUSH. I was a delegate to the Mexico-United States Inter-parliamentary Conference and it seems that the Mexicans want to see this program continued, so there is no thrust in Mexico on this.

Mr. COURTNEY. The Mexican Government was represented and made a very strong and logical appeal that it should not be discontinued.

Mr. BUSH. I would like, Mr. Nathan, if possible, to get a copy of that report if you have an extra copy. I would certainly like to have it.

Mr. Chairman, I cannot understand why it is even on here given these appreciable unemployment figures that anybody would suggest changing—particularly the testimony, unless there is some real controversy over your testimony, that it would result in more jobs in some way in Texas, or along the border, and the California border—I don't understand the push for changing it, but with unemployment at an unconscionably high level and with testimony that this would not create additional jobs, I would hope, Mr. Chairman, the committee would table this thing and leave the important provision that has provided more jobs alone until people have come to the committee and given us testimony. I don't know who the mysterious people are in New York but certainly any one entitled to testify should have been here. These facts—I just don't understand it. I hope when we get into executive session we can leave this thing to rest and leave this important aspect of the tariff alone.

Mr. GIBBONS. On top of that 30 cents an hour, is there any kind of fringe benefit paid in Mexico? Can you briefly enumerate those?

Mr. BRAMBLE. I can't give you the exact fringe benefits but Mexico has a number of unemployment rights and health privileges and such things that are charged to the employer which he has to pay. How much that amounts to, I am not certain.

Mr. GIBBONS. Do they have something like our social security system?

Mr. BRAMBLE. That is right.

Mr. GIBBONS. They have health and social security and unemployment?

Mr. BRAMBLE. That is right. Sometimes it is calculated differently. In Mexico for instance, when one hires an employee and he works for any period of time, he gets a month of separation pay for every year he has worked. If he works for any length of time that becomes a very large sum of money. The employer cannot afford to fire him, so he is kept on.

Mr. VANIK. I have a few questions I would like to direct to you gentlemen. We have this issue of jobs in mind which my distinguished colleague from Texas brought up. I am wondering what effect it has on jobs in other places. At a Tariff Commission hearing last month there was a businessman who had plants in Arkansas and Texas. He moved to Mexico. He said this southern operation employed about a thousand people and most of them were on welfare.

Do you think there is enough return to this country from 30 cents an hour labor to make up for the loss of \$1.60 jobs in other places in this country like cities in Ohio or Michigan or New York. Does this match the job loss we encounter in these other areas?

Gaining jobs for Texas, which this probably does, but costing a lot more jobs in other places in America would not be very good on the audit side. What about that?

Mr. COURTNEY. No. 1, on this 30 cents, I was asked the question of the wage rate for stoop labor in the field. This is not the industrial wage rate. Those benefits now are about 54 to 55 cents. It varies from State to State and is set by State law.

Mr. VANIK. What states are we talking about?

Mr. BRAMBLE. Mexican States.

Mr. COURTNEY. We are talking about four border States.

Your question as to whether even 50- or 60-cent labor makes up for the \$2 labor somewhere else is well taken. This is not taking the place of \$2 labor in any other State.

This is taking the place of 13 cents labor in the Orient. These jobs that are created as a result of this are created because this is the only place that these particular industries under the present arrangement and the present laws can compete without having to actually either just import 100 percent or go to the Far East. I think you will find this is true in 95 percent of the cases.

Mr. VANIK. In a statement I think Mr. Nathan made on industrial and employment of the United States-Mexican border, you stated a factor which may influence the movement of U.S. industry to the Mexican side of the border is the policy of the Mexican Government to prevent the economy of Mexico from being dominated by alien firms.

As industry of the United States conducts operations along the border, it is possible and probable that Mexico would limit permits to foreign firms which would compete in markets in which the Mexican industry had a capability. That was your statement.

Isn't that really saying U.S. firms should be free to go into Mexico, make goods for the U.S. consumer to buy at U.S. prices and then be prepared for restrictions by the Mexican Government?

Mr. NATHAN. This type of restriction is a common thing. It is true that Mexico as with many countries around the world, is fearful of dominantly foreign ownership of enterprises in the country and it does tend to limit the amount of investment or sometimes makes foreign investors take only a minority share. That is not a factor in the Border Development Program, which permits 100 percent foreign ownership, but not all lines of business are open to receive a license to participate.

Mr. VANIK. It goes along with the feasibility of 807.

Mr. NATHAN. Let's look at it from the point of view of employment and income. From that point of view I think whether you are creating or saving jobs in Texas and losing jobs in Ohio is not the issue. I think that also we are saving jobs in Ohio because to the extent that we are able to continue to manufacture a component which then goes abroad and is combined with a lesser skilled and therefore lower wage or lower cost employee, we are saving in the United States the high-wage job of assembling that component.

If you did not have that low unit cost assembly, the probabilities are, and we have looked at many of these cases, and firm after firm so testified before the Tariff Commission, that they would literally go abroad totally, not in part. So in essence, one can say that without low wage, low unit cost for high labor intensive operations, they would go abroad for the whole process.

If 807 were denied, not only would there be a reduction in jobs along the Mexican border because of trade being reduced but I think you would have less jobs in Ohio because components are even made there which are shipped out and then come back in finished products which otherwise could not come back because they could not compete.

Mr. VANIK. Under section 807 are any complete products made?

Mr. NATHAN. No; it is only the value added abroad that is taxed under section 807. That part which goes out of the United States is not taxed. But any product which was made completely abroad would not qualify under section 807 at all.

Mr. VANIK. Your report further goes into Mexican industry development restrictions on importation of U.S. goods and so on. Isn't that really saying whenever the Mexican Government finds it has a competitive industry that the U.S. firm will be shut out?

Mr. NATHAN. They will try, of course. Oftentimes countries do this when they have an adverse trade balance with a neighbor. They try to close down or slow down that foreign controlled activity which competes with their nationals. I think that the Mexican economy will make an effort to deny access to American products as long as they have an adverse balance of payments. I think the answer, Congressman Vanik, lies in trying to eliminate these restrictions—not in going into competition with them in levying restrictions.

Mr. VANIK. We went through that with Japan. That is precisely what we did there. Here we have a country which is not even a member of the GATT. There is nothing to prohibit any kind of restriction.

It seems to me that we are operating considerably at our peril because we are extending a situation here in which there are no levers, there are no rules. There is just our generous good will or attitude of cooperation with a neighbor to the south. We are extending a great deal. I am not sure that we are not on the losing side rather substantially. I don't mind if we lose a little but it seems to me the risk is we can lose a great deal.

Mr. NATHAN. It seems we have not been losing.

Despite the restrictions or bargaining capabilities due to absence of membership in GATT, still we benefit with our trade with Mexico over the years by having a favorable trade balance. With all of their restrictive tendencies we still sell them a lot more than we buy from them.

Mr. VANIK. Who are the members of your organization?

You have the American-Mexican Association. Do you have a publication which lists your membership?

Mr. COURTNEY. I will supply for the record. They are manufacturing companies, chambers of commerce of border cities, they are developers of industrial property on both sides of the border, worker organizations on both sides of the border.

Mr. VANIK. In a sense you have a tool which I wish I had in my community. I wish I had this privilege in my community to work out some special arrangements and get some special benefits of the law.

I am also on a border with Canada.

Mr. COURTNEY. Congressman, you have some.

Mr. VANIK. We have the automobile agreement. I am reviewing that. I am not sure that is really working out like I thought it should. I buy an automobile today and I don't know where it is made. I have problems getting an automobile that will run. You sort of want to go back to the source of supply and find out who put the pop bottle between the window and the plastic cover for the door. You sometimes wonder where errors and problems are developed. Today it is pretty hard to tell where your automobile is made. It might have been made entirely in Canada. They make certain models completely there and some are made here. I am not sure, but at least with Canada we have a competitive labor situation. We have a living standard. We have organized labor which is just about the same so the competitive factor does not come at the expense of the human beings who work and develop the product.

Are any of your member companies involved in defense business?

Mr. COURTNEY. Indirectly, yes. The plant that happens to be involved in the area is not producing defense materials to my knowledge, but some of the very large corporations of this country who are in the defense business do also own plants in Mexico that operate under the Mexican border industrialization program.

Mr. VANIK. Some of the items that are paid for by all of the taxpayers of the United States required in the determination of the Defense Department for the defense of America are then made outside of the country without at least knowledge of the American people that this is going on. I think we have a right to know.—

Mr. BUSH. I was not clear on the question. Mr. Chairman. I thought you asked whether they were the members of the organization. I don't think he responded directly whether the Defense products were being made outside the country.

Mr. COURTNEY. I said they were not to my knowledge; that they were large corporations that manufactured articles for the Department of Defense but not in Mexico.

Mr. VANIK. Your reply is that no products acquired under Defense contracts are produced under the provisions of this section outside of the United States?

Mr. COURTNEY. That is not my answer because I have no personal knowledge. I have no personal knowledge that this was true.

Mr. VANIK. Can you tell me categorically that Defense products, items purchased under Defense contracts are not made outside of the United States under the provisions of section 807?

Mr. COURTNEY. I would doubt that the procurement department of the Department of Defense could answer that.

Mr. VANIK. I would like to have an answer.

Mr. COURTNEY. I can't give you an answer.

Mr. VANIK. You represent organizations that are involved in this business. It seems to me that the answer ought to be available to members of this committee. We ought to have this information.

Mr. COURTNEY. I will be happy to question all of our members and furnish it to you just as soon as I can. I will do it by long-distance telephone if it pleases the Congress.

Mr. VANIK. I think it would be helpful. We certainly should know how this affects every taxpayer in the United States. We ought to know where our money is going.

Mr. COURTNEY. I can tell you a very large employer in your district is able to keep a plant open in Ohio only because he is able to use this program.

Mr. VANIK. If this is so, he has not bothered to tell me and I don't know why it should be secret. I think we should know.

Mr. COURTNEY. It is a matter of public record because you have to have a permit from the Mexican Government which is a public record.

Mr. VANIK. When I suggested we don't know about it, I have no information of any industry—

Mr. COURTNEY. Do you know where the plant headquarters of all of the people of your district are located in other places in the United States?

Mr. VANIK. I have only that information which every citizen would have, maybe a little more, but I don't have an index of where they are operated.

I want to know as a representative of all of the people of the United States whether the taxpayers' money is being used to procure items of defense outside of the United States under section 807.

Mr. COURTNEY. I will query our members and give you a report.

Mr. VANIK. I also am concerned about the labeling of these products of foreign origin. I am wondering if some of the things that are being manufactured out here would be embarrassing if they had to put the label—

Mr. COURTNEY. They do have to put the label on. It is required

that the label state "Assembled from American components in Mexico."

Mr. VANIK. It has to say that on every item?

Mr. COURTNEY. Yes, sir.

Mr. VANIK. That is good to know.

I am also concerned with Government funding. I am not so much concerned but I want to know about it. Does the United States Government help train these people in Mexico to work in these border plants? I have here an article that tells me something about that, that Federal funds are used to train Mexicans to carry on this work that you suggest is sponsored by your organization.

Mr. COURTNEY. This is against the law and to my knowledge this does not happen anywhere.

Mr. VANIK. It does not take place to your knowledge?

Mr. COURTNEY. No, sir.

Mr. VANIK. I understand there were some mobile vocational training units that were on loan from Imperial Valley that were carried on through the border area.

Mr. COURTNEY. That was on the American side of the border, and trained American workers to work in American plants.

Mr. VANIK. It is not to train the others?

Mr. COURTNEY. No, sir.

Mr. VANIK. I don't object to training other people. Again I feel this is something we should be aware of. I frankly think it would be good for the whole world if we were to train people in foreign countries instead of shooting them down. We would solve a great many problems in this world if we were to direct our energies in that area.

I have no further questions.

Mr. COURTNEY. Congressman, could I add one thing for the record?

Mr. VANIK. Yes; surely.

Mr. COURTNEY. I feel it has not come out exactly from the ownership angle and what is involved in Mexico is involved under their industrialization program. I think there is a misconception here.

No. 1, under this program Mexican ownership is not involved at all. These corporations are 100 percent American owned, or can be. There are no restrictions. This program operates only within a 17-mile zone of the border from one end to the other. The American equipment that goes over there and the reason you don't pay any duty in or out is because it goes in under a surety bond saying it will come back. But there are no restrictions whatsoever in either owning the company or as far as that is concerned, in owning the buildings, the plants, or anything else used in these operations. So far as I know, they are all owned or financed by American capital.

Mr. VANIK. I want to say I have the highest regard for the development of the Mexican economy. We have a neighbor situation here. We should try to be good neighbors. I want to be sure business and industry is not exploiting this and using this as a lever or tool or device.

You made one other statement. You talked about the travel balance. You said the Mexicans spend 80 percent of what the American spends in their travel in the United States. Are you including in that estimate the contributions to the Mexican economy of the great retirement industry of Americans in Mexico?

As I understand it, Guadalajara is practically filled with American citizens, thousands of Americans who have gone into Mexico as a place of permanent residence. I can see why they would do that. I was in Mexico a few years ago and I was injured. I went to the doctor and I had a two dollar bill for services that would have cost \$50 here. I got some drugs for 50 cents a capsule, bisilin. I tried to buy it when I got back here and it was \$7.50. I can see some distinct advantages for people wanting to retire to Mexico and getting advantage of the reasonable pricing policies as distinguished from what happens in many areas in this country, particularly in the pharmaceuticals.

Mr. BRAMBLE. The figures for "expenditures by U.S. visitors to Mexico" do not include people who are residents and retired there but the remittances that are made through the banking system are included in the receipts and expenditures from other transactions.

Mr. VANIK. That would not include social security and pension funds?

Mr. BRAMBLE. It would include all of the transactions that are made and recorded. That is, in the overall balance, but not in the category, "expenditures by visitors."

Mr. VANIK. Thank you very much, gentlemen. We very much appreciate your testimony.

Mr. COURTNEY. Thank you, Mr. Chairman.

(The following statements were received for the record:)

INTERNATIONAL LADIES' GARMENT WORKERS' UNION,
New York, N.Y., June 8, 1970.

HON. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, House of Representatives, 1102 Longworth House Office Building, Washington, D.C.

DEAR SIR: The attached submission is made on behalf of the International Ladies' Garment Workers' Union and the Amalgamated Clothing Workers of America in support of H.R. 14188 to repeal Item 807.00 of the Tariff Schedules of the United States (referred to in the attached submission as Item 807 and TSUS).

The International Ladies' Garment Workers' Union (ILGWU) and the Amalgamated Clothing Workers of America (ACWA) have more than 850,000 members who are engaged in producing every type of garment and apparel accessories in every state in which apparel production is significant and in the Commonwealth of Puerto Rico and the Virgin Islands.

The two organizations and their members are vitally concerned with the impact of apparel imports entering the United States under Item 807, which they view as even more serious than that of the overall growth of other apparel imports. This is due to the peculiar nature of the apparel industry and its business organization.

In this submission, the apparel industry is described as being made up of establishments and enterprises producing garments and accessories for persons of both sexes irrespective of their age by cutting and sewing woven and knit textile fabrics, by knitting from yarn, or by cutting, sewing, cementing or fusing related materials such as rubberized fabrics, plastics and leather. It does not encompass such products as hosiery, hats, caps, furs, handbags and similar items. The 4-digit SIC classifications or portions thereof that correspond to this concept are listed in Annex Table 1. while the corresponding TSUSA classifications are summarized in Annex Table 2. The available statistical data do not always conform strictly to the industry definition offered above in which members of the ILGWU and ACWA are employed. However, the minor differences in coverage and definition are not apt to affect the validity of the analysis.

It is hoped that the attached submission will enable the Congress of the United States to place the economic problems generated by the imports of apparel arti-

cles under Item 807 into a proper perspective with a view to the ultimate elimination of the threat it presents to the jobs and economic welfare of our nation's garment workers.

Respectfully yours,

LAZARE TEPER, *Director.*

STATEMENT SUBMITTED ON BEHALF OF INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO AND AMALGAMATED CLOTHING WORKERS OF AMERICA, AFL-CIO

Item 807 of TSUS, as written and administered, fosters an imminent and serious danger to the welfare of workers in the United States who are engaged in the production of the various articles of apparel. It provides an unhealthy inducement to domestic apparel firms to move their manufacturing operations, not infrequently in stealth, to foreign nations, many in the proximity of the United States. The excessively rapid growth that has taken place in the few years since Item 807 was placed on the books is indicative of the lure it provides for the evasion of labor standards established in this country after many years' efforts under the pressure of public opinion, legislation, and activities of organized workers and their unions.

ECONOMIC BACKGROUND

The apparel industry is one of the most competitive in the nation. To a considerable extent, it remains the mainstay of small business enterprise.¹ The number of firms producing different articles of apparel approximates 28,000.²

The existence of a large number of firms in the industry fosters vigorous rivalry for the available business. Each firm competes with others making the same product and also with firms making other types of garments. Thus, for example, companies making dresses face competition from makers of skirts, blouses, sweaters, suits, slacks and other items of sportswear. Companies producing overcoats and topcoats compete with those making raincoats, car coats, mackinaws, lumberjackets, and other sportswear. Because capital requirements in the apparel industry are modest and its technology is relatively simple, new firms continually enter the field. Small firms, irrespective of the size of their capital assets, normally have a reasonable chance of success in competing with larger companies. Much depends on the ingenuity of their principals in meeting market demand, in anticipating fashion developments and in providing the ultimate buyers of their products with good value. The business, of course, is risky. Competition is keen, and even in the absence of low-wage competition from abroad many firms succumb in the process.

The ease of entry is also facilitated by the relatively low skill requirements on the part of the industry's labor force. Most of the machines in use by the industry are fundamentally mechanized tools, the handling of which can be readily mastered within a short period of time. The basic equipment is the sewing machine; with the addition of auxiliary equipment and increased subdivision of labor, garment industry operations have been steadily simplified. This is also true for most other equipment in use in the industry. With the development of technology, such skills as once might have been required of the industry's workers have been diluted by new production techniques, minute subdivision of labor and the resulting specialization which calls for the performance of highly simplified tasks. After elementary instruction in the handling of a sewing machine is given to a worker without prior experience, the learning process consists of progressive and relatively rapid acquisition of greater operating speed. As a result, the industry does not call for high educational attainment on the part of their workers—one out of every four persons employed in the industry

¹ U.S. Bureau of the Census, *County Business Patterns 1968* shows that the average establishment in the industry employed only 59 production and non-production employees (including persons engaged in executive, administrative and professional activities), and this at the peak of the spring season when employment is normally higher (data for SIC 23 and 225). The average company in the industry has only fractionally more than one establishment. The latest available data is for 1963 and shows that an average company in the industry owned from a low of 1 to a high of 1.53 establishments depending on the branch of the industry (U.S. Bureau of the Census, *1963 Census of Manufactures*). When the data becomes available for 1967 it is doubtful whether the figures would be materially different.

² U.S. Bureau of the Census, *County Business Patterns, 1968*.

have not completed primary schooling and virtually three out of every four workers did not finish high school.³

OUTSIDE SYSTEM OF PRODUCTION

Unlike other industries where manufacturing functions are tied up with those involved in the distribution of the finished product to wholesalers or retailers, there are two distinct systems of operations in the apparel industry: the "inside system" and the "outside system" of production.

Under the "inside system" of production, an apparel manufacturer performs similar economic functions as performed by manufacturers in other industries. He designs the product that is to be produced, purchases the needed materials to be used in its manufacture, employs workers in his own plant to perform the needed operations in the manufacture of the finished product, and engages in all related distribution and merchandising functions.

Under the "outside system" of production, manufacturing operations are divided between two types of firms. The principal firm is known as a "jobber" or a "converter".⁴ Jobbers in the apparel industry perform all the entrepreneurial functions of a manufacturer (frequently they are even spoken of as manufacturers by their suppliers, customers, credit agencies and persons at large). They design the products to be manufactured, purchase the raw materials such as fabric, yarn, buttons, belts, etc. needed in the manufacture of garments, have samples made up for presentation to potential buyers, maintain showrooms where buyers can view their collections, and sell the finished product to wholesalers or retailers.⁵

The actual making of the garment (with the possible exception of cutting) is carried out to the jobber's specifications by firms known in the industry as "contractors." The latter provide premises, machinery and equipment, and the work force for manufacturing garments. Contractors not only perform this service for jobbers, but at times also work for the industry's manufacturers who need to supplement production of their own factories to meet a temporary or permanent demand for greater output, or to divert production from their own establishments for various reasons of business strategy, including that designed to counter organizational activities of labor organizations or to take advantage of lower wages that may prevail in the contractors' shops.

The "outside system" of production is characteristic of apparel industry's operations in the United States and elsewhere. Contractors are, in effect, purveyors of labor. They do not sell what they produce in their shops in the open market. The amount they receive from their customers—jobbers or manufacturers who supply them with raw materials and specifications for the completion of the assigned tasks—is supposed to cover their outlays on labor, relatively minor expenses for such things as thread, needles, or hangers, overhead costs and profits. Companies that supply work to contractors typically retain title to the basic materials out of which garments are fashioned.⁶ Thus, there is no "market price" for contractors' output—what they turn out is not available for sale by them in an open market. What they manufacture does not, in effect, belong to them. They are merely purveyors of a manufacturing service executed on goods that belong to another concern, their customer.

The existence of the outside system of garment production helps to heighten competition in the industry. It enables jobbers and manufacturers to obtain greater flexibility in coping with the variations in the demand for their product by transferring the burden of fixed costs from their own shoulders to the contractors who are typically smaller, more numerous and economically weaker. Thus without investing in additional plant and equipment and hiring the workers, production can readily be expanded to meet increased demand, and by

³ U.S. Bureau of the Census, *Census of Population 1960: Industrial Characteristics*, PC(2)7F, Table 21 (the information is for labor force engaged in work on apparel and other fabricated textile products and knitting mills).

⁴ The term converter instead of jobber is used in the vertically integrated production of knitgoods.

⁵ The term jobber as used in the apparel industry is thus quite distinct from the more commonly used homonym used to describe a wholesale merchant, one who assembles job lots of merchandise from different suppliers solely for the purposes of resale.

⁶ Cut or uncut piece goods are either consigned to contractors, or else a fictitious sales transaction is recorded on the books of the jobber and the contractor, with raw materials used in the production of garments charged at the same valuation when work is completed as on their receipt by the contractor.

the same token contracted whenever necessary with little cost to the jobber or the manufacturer.

The very ease with which production could be expanded or contracted in response to changes in business conditions through the use of contractors has accentuated the many evils traditionally associated with the apparel industry. While capital requirements needed to enter business in the apparel industry, as previously noted, are generally low, they are even lower in the case of contractors. No investment need be made in an inventory of raw materials. In the making of samples, for the maintenance of a showroom, or in advertising. At times, the needed capital for the establishment of a contracting shop may even be advanced by the jobber.⁷ It is said in the industry that all that is needed to go into business as a contractor is a week's payroll and enough to get the electric wiring hooked up. Machinery and other equipment are relatively inexpensive, can be acquired new or second-hand on an installment plan or else rented.

Seasonality, always present in the apparel industry, is aggravated in contracting shops. Jobbers and manufacturers have little interest in lengthening the working seasons since they bear no fiscal responsibility for contractors' overhead costs.⁸ Seasonality is also heightened by the tendency of jobbers and manufacturers to encourage the opening of additional contracting shops to assure the presence of a surplus of bidders, a surplus of productive capacity, and a surplus of a labor supply geared to meeting any rise in demand that might occur. Admittedly, production may be concentrated among a relatively small number of contractors, but a trickle of work is maintained to other contractors to keep them around and to exert a continued competitive pressure "to make contractors behave." Underemployment, always present in the apparel industry, is thus further aggravated in contracting shops, affecting workers' earnings and living standards. The contracting shops, write Robert J. Myers and Joseph W. Block, "are first to suffer when business falls off. Employment in them is more irregular than in any other part of the industry. The smallest shops are hard to find and hard to organize. Fly-by-night contractors have sometimes decamped without meeting payrolls. Nonunion contract shops have offered a ready means of completing strike-bound work. The control of the contract shop has been one of the most challenging tasks the union has faced, and the policies which have been successful in accomplishing this task are of fundamental importance in the study of collective bargaining."⁹

By playing one contractor against another, the "competitive pressure upon contractors, whose expenses were largely for wages, often led to wage-cutting, especially in the slack seasons."¹⁰ When work was scarce, noted a report of the Governor's Commission investigating the women's coat and suit industry of New York, the workers were told that "in order to meet the exigencies of price competition and to bring some work into the shop they must enter into secret arrangements contrary to the minimum standards which have been agreed upon."¹¹ Thus by pitting one group of contractors against another, manufacturers and jobbers effectively pit one group of workers against another. The focal point of the problem created by the existence of contracting, wrote one authority, "is contained in the inability of the contractors to withstand the pressures brought to bear upon them, and the result has been a general disorganization of industrial stability through the spreading of the auction block competition between contractors."¹²

⁷ In addition to bona-fide contractors, there are contracting shops wholly owned by manufacturers or jobbers. These are organized as distinct corporate entities or partnerships or proprietorships with the same or somewhat different ownership makeup than the company that supplies them with work.

⁸ While the jobber or manufacturer frees himself of responsibility for the employment standards found in the shops of his contractors, he tends to treat them as his own for his own production needs, and may even rely on his own production manager or else another executive to act as the supervisor of the several contracting shops working for his account.

⁹ Robert J. Myers and Joseph W. Block, *Men's Clothing* in Harry A. Mills, editor, *How Collective Bargaining Works* (The Twentieth Century Fund, 1942), p. 391.

¹⁰ Richard Lester, *Economics of Labor* (The Macmillan Co., 1942), pp. 818f.

¹¹ New York State, Governor's Advisory Commission, *Final Report and Recommendations*, May 20, 1926, p. 5.

¹² Sherman Trowbridge, *Some Aspects of the Women's Apparel Industry* (National Recovery Administration, Division of Review, Work Materials No. 44, 1936), p. 4.

RUNAWAYS AND PROBLEMS OF CONTROL

Low capital requirements, simple technology, ease of training of new workers and the outside system of production help to make the apparel industry highly mobile and foster an ever-present spectre of the run-away shop. Operations are moved from their existing locations, unless checked, either to escape higher labor standards or unionization of their employees. This is frequently committed in total secrecy. A great variety of devices are utilized to attain this aim, including the creation of new corporate entities complete with sets of dummy directors or stockholders. It is not infrequent, therefore, to face an employment decline in a garment establishment or company only to discover some months later that production was secretly diverted to another factory at a different location, at times quite a distance away.

To counteract the burden imposed on the industry's workers by the existence of the outside system of production and the run-away shops, the unions sought by a variety of means—collective bargaining, strikes, as well as appeals to public agencies—to check negative impacts on the welfare of the industry's workers. Union agreements succeeded in providing that work be divided equitably not only among the workers in each of the organized shops, but also among all shops, including the shops of contractors, working for the account of a particular manufacturer or jobber; work had to be limited to the organized shops actually required to meet production needs. When a manufacturer's or jobber's business expands requiring the addition of new capacity, the unions insisted that new shops, whether their own or operated by contractors should function under union conditions and that such additional shops do not bring about a diminution of available work or in the number of workers in the other units utilized by the particular firms. Jobbers and manufacturers were also made responsible for the payment of wages in the shops of the contractors they employed in the case of defaults. The purpose of these requirements is the establishment of fair labor standards in the shops covered by union agreements, to create greater job security for workers, to provide more equitable distribution of available work among workers, to reduce employment fluctuations, to improve workers' earnings, to assure that their wages will be paid when due and to safeguard jobs by checking the possibility of diversion of work, and in the process to reduce the number of labor disputes and controversies.¹³

RUN-AWAYS ON THE INTERNATIONAL SCENE

The extremely competitive situation in the domestic apparel industry and its extreme mobility, aggravated by the existence of the outside system of production, provide the economic background against which the impact of Item 807 has to be evaluated. Diversion of operations from one area to another within the United States remains a problem which periodically faces apparel workers and their unions. It acquires a new dimension when operations are diverted to foreign countries where wage standards and other labor conditions are substantially poorer than in the United States. The ease with which apparel firms avail themselves of Item 807 when garments are made abroad from fabrics cut in this country further aggravates the problem.¹⁴

When a domestic apparel manufacturer or jobber decides to take advantage of Item 807, he has two choices. He may establish a contracting operation in a foreign country which will be controlled either through outright ownership, in whole or in part, or through the use of dummy stockholders, American or foreign (to take whatever added advantage there may be under the law of a particular

¹³ Collective bargaining agreements in the apparel industry, it must be emphasized, in no way seek to limit the supply of apparel, fix prices, allocate markets or customers, control the types of products which may be produced or sold, prevent competition from entering the market, to limit the number of firms engaged in the production or distribution of clothes, to protect any design or style created by any individual or group, or to affect competition or create any monopoly in the production, sale or distribution of apparel. Nor do such contractual provisions seek to aid any individual businessman or group of businessmen in any of their commercial objectives.

¹⁴ The applicability of Item 807 to the manufacture of apparel abroad out of fabric cut in the United States will be discussed below.

country).¹⁵ Alternatively, he may rely on the services of a foreign contractor and even back him financially just as is done in the United States.¹⁶ Frequently the fact that contract work is diverted abroad is concealed from a firm's workers, unions, and even customers, in exactly the same way and for the same reasons that efforts are made to conceal run-aways to other parts of the United States. The attendant secrecy makes it difficult to get the facts about such operations. "The paucity of information," *The Wall Street Journal* reported, "is due partly to the tight-lipped policies of many companies operating on the border. 'The less our competitors know, the better we feel,' snaps the president of an American Company now expanding its initial border operation."¹⁷ After interviewing Cal-Pacifico of Newport Beach, Cal., a company that assists clients to relocate to Mexico. *The Wall Street Journal* concluded that "production in Mexico is negotiated for anonymous U.S. clients." Cal-Pacifico's service, it appeared, "is for companies that would be embarrassed, for one reason or another, by disclosures that their products are made outside the U.S."¹⁸ This is quite typical of run-away situations long familiar to the ILGWU and ACWA.

LABOR COSTS

The lure provided to apparel manufacturers who seek to establish contracting operations abroad has, of course, many hues. In the main, there is little difference in the quality of worker performance or in output per manhour between the domestic and foreign apparel manufacture. Technology and managerial know-how are internationalized. When American management moves some of its operations abroad, it makes doubly certain that the know-how it developed in this country is fully communicated and utilized in its foreign operations. Besides, the same machine producers and management consultants operate throughout the world and offer similar equipment and advice. Small capital requirements make it relatively simple for firms everywhere to get modern equipment needed to attain peak productivity. Workers are just as readily trained abroad as they are over here. Thus, other than incidental costs, such as customs duties on value-added abroad, transportation and insurance, the major cost differential between domestic and foreign operations is reflected by the differences in the respective wage levels and fringe benefits.¹⁹ Table 1 on the following page provides information for a number of countries where apparel shipments entering the United States under Item 807 originate.²⁰ For all these countries, except Canada, average hourly earnings of apparel workers range from 8 to 26 percent of what an average apparel worker made in this country in 1969. For 13 of the 18 countries, the wage differential equaled or exceeded \$2 an hour. For 3 countries (including the border region of Mexico), the average hourly wage in the United States was higher by \$1.95 or \$1.96. Only for two areas, the wage differential was down to \$1.76 and \$1.71 per hour. Even Canada, where wages are much higher, paid its apparel workers 56¢ less than did the United States. With worker productivity basically the same in all areas, differences in hourly earnings reflect comparative unit costs in the several countries.

¹⁵ For example, new companies with a majority control of Mexican nationals get tax advantages under the Mexican law not available to companies that are controlled by non-Mexicans.

¹⁶ Irrespective of the particular legal relations, foreign operations of American apparel firms returning their goods to this country under Item 807 are essentially contracting in nature, as this term is understood in the industry, and are treated as such throughout this study.

¹⁷ *The Wall Street Journal*, May 25, 1967.

¹⁸ *Ibid.*, July 20, 1967.

¹⁹ Dollar for dollar, fringe benefit payments in the apparel industry of the United States are substantially higher than anywhere abroad. In many countries, of course, workers get no fringe benefits.

²⁰ The existence of widespread violation of legal minimum wage standards (where such exist) or other wage practices (such as nonpayment or underpayment of wages to new employees) and lower earnings for industrial homeworkers are likely to make the estimated earnings of foreign apparel workers in Table 1 (except in Canada) err on the high side.

TABLE 1.—Average hourly earnings, apparel industry, United States and foreign countries exporting under Item 807.00 TSUS, 1969

[Expressed in U.S. currency]

Country	Average hourly earnings
United States	\$2.31
Canada	1.75
Barbados	.22
British Bahamas	.55
British Honduras	.23
Colombia	.20
Costa Rica	.28
Dominican Republic	.36
French West Indies	.35
Guatemala	.29
Haiti	.19
Honduras	.23
Jamaica	.31
Leeward and Windward Islands	.21
Mexico (border region)	.35
Netherlands Antilles	.21
Panama	.60
Philippine Republic	.23
Salvador	.29
Trinidad and Tobago	.26

NOTE: The figures do not take account of earnings of cottage workers (i.e. industrial homeworkers), in foreign countries. In some areas their number is significant. Homeworker wages are but a fraction of the earnings of factory workers in the same countries.

SOUTH OF THE CALIFORNIA BORDER

A sidelight on the burgeoning apparel contracting operations in Mexico was provided by a September 1969 investigation by the ILGWU staff in the area stretching from Mexicali to Tijuana, south of the California border. Apparel contractors were found to mushroom all along the border. In that single sector, more than 2,000 apparel workers were employed on work destined for the United States under Item 807. Some 30 shops were "legitimate"—licensed and registered with the authorities. These were known locally as *Maquiladores*. The larger shops, in most cases, were well ventilated and even air conditioned. However, a much larger number of shops, locally described as *Ensemladores*, neither registered nor licensed, operated virtually in a clandestine manner in odd sorts of locations, such as garages or little unheated store fronts. Their total number is not known, they do not display names or addresses and in most instances have no phones.

In many cases work for both types of shops is picked up by agents in the Los Angeles area, who in turn decide how it shall be distributed. Some of the *Ensemladores* do sub-contracting for *Maquiladores*. Since a number of *Maquiladores* and most of the *Ensemladores* do not have pressing machines or pressing facilities, this work at times is either sent out to the nearest cleaning stores or else is done by industrial homeworkers. However, in some cases work is shipped to the States unpressed.

Typically, new workers are hired as learners. The hiring rate in the *Maquiladores* was supposed to be 30 pesos a day for the first 3 months and 44 pesos for the next three months; thereafter the workers were supposedly paid by the piece. The rate of 44 pesos a day in the *Ensemladores* was not to begin until after a year's employment and often in violation of law they paid nothing to new employees during the initial period of employment.²¹ Piece rates, of course, were set unilaterally by the employers.

²¹ While under Mexican law, trainees must be paid, there is nothing in the law that calls for the payment of a specified minimum rate (Aureliano Gonzales-Vargas, "Legal and Other Considerations in Establishing a Twin-Plant" in U.S./Mexico Border Cities Association, *International Twin-Plant Seminar*, Cd. Juarez, Mexico, October 5-6, 1969, p. 15). It is up to a company's manager to decide how long the training will be or what is the standard for a fully-trained person who has to be paid the legal minimum (William Reid, "How the Twin-Plant Concept Works" in *Ibid.*, p. 5). Studies made by Mexico's National Minimum Wage Commission show that legal minimum wage standards are widely violated (see, for example, Mexico, Comision Nacional de los Salarios Minimos, *Proporcion de Cumplimiento e Incumplimiento de los Salarios Minimos*; its *Memoria de los Trabajos de 1964 y 1965: Investigaciones y Estudios Para la Fijacion de los Salarios Minimos Profesionales*, V, pp. 170-172, 173 and 182-193; its *Incumplimiento en el Pago de los Salarios Minimos: Respecto al Total de Trabajadores Sujetos a Dichos Salarios*).

SUBSIDIZED TRADE

In addition to the lure of lower unit costs, domestic entrepreneurs are offered added enticement to transfer their contracting operations abroad by tax concessions in the foreign countries on the binding commitment to export 100 percent of all goods processed there and sell none locally. The grant of various concessions, including customs duties and other remissions, constitutes an export subsidy, while prohibition against the sale of goods within the country where processed is a newer, more modern form of non-tariff barrier. Exports so subsidized make the countries where such shipments originate subject to the application of countervailing duties under our tariff legislation. The Congress of the United States should request the Executive Branch to review without delay the various subsidies now offered by foreign nations that ship goods under Item 807 and instruct the U.S. Bureau of Customs to take appropriate steps to impose countervailing duties.

Subsidization of export industry including apparel contracting operations is widespread. While specific provisions vary among countries, they possess many elements in common. Income and other taxes may be remitted in full or in part. Custom duties normally levied on imported goods, including those on machinery, equipment and building materials used in plant construction, may be waived in full or in part and in some nations made payable on installment. New plant construction may be subsidized by low interest loans advanced by governmental or quasi-governmental agencies, or else plant sites or buildings and lofts are made available at subsidized rentals. Special credit terms may also be arranged for the purchase of equipment, machinery and materials, for financing inventories or to bolster working capital.

MEXICO'S PROGRAM

Mexico, for example, developed a comprehensive program to entice American firms to establish contracting operations within 20 kilometers of the U.S.-Mexican border.²² Although under Mexican law at least 51 percent of the capital of an enterprise must be Mexican, this is waived in the border region. When factories are set up, they can import machinery, equipment, raw materials and any component free of duty and free of the existing import restrictions applicable to the rest of Mexico. These subsidies, however, are only provided if the entire output produced in such plants is exported, and furthermore all processing must be performed by Mexican nationals. Additional subsidies are available through reduction in railroad freight rates—25 percent for semi-manufactured goods and 50 percent for finished goods. Federal commercial revenue tax (also known as mercantile tax, gross receipts tax or sales tax) which equals 1.8 percent of the value of exported goods, is also remitted. Companies established in the border region technically qualifying as having a majority of Mexican ownership (readily arranged through dummy stock ownership), get additional tax concessions for up to 10 years, with the possibility of a 5-year extension. Under this program 20 to 40 percent of income tax and of the general stamp tax may be forgiven. In specific situations, advantageous loans may be provided by governmental financial institutions to subsidize the maintenance of inventory stockpiles or to finance production for export. Additional incentives are also offered by local and state governments including *inter alia* tax forgiveness of 50 to 100 percent of state levies for as long as 10 years and in some cases for more extended periods.

²² The original Mexico's National Frontier Program—PRONAF—was designed to rehabilitate towns in the border area and "to bring them more actively within the Mexican economy" and thus "reduce their dependence on U.S. sources of supply." Accordingly, "Mexican manufacturers with the help of PRONAF are pressing to orient them toward Mexican suppliers" (U.S. Department of Commerce, *Mexico: A Market for U.S. Products*, June 1966, p. 4). Despite continuous claims to the contrary, this continues to be pursued in line with Mexico's national interest. Thus, the government of Mexico provides subsidies to its domestic manufacturers who ship goods to the border areas. In August 1968, a campaign was launched in Mexico, with the backing of Minister of Commerce and Industry Octaviano Campos Salas, to check purchases of clothing in the United States by Mexicans crossing the border (*Women's Wear Daily*, June 5, 1968). A campaign along this line was undertaken by the Confederation of Chambers of Commerce of Mexico with government support (*Ibid.*, September 25, 1968). These and similar activities, designed to curb purchases by Mexicans crossing the border to the United States, continue (see for example, U.S.-Mexico Commission for Border Development and Friendship, U.S. Section, *Borderland Patterns*, August 1, 1969, reporting efforts of lumber and hardware distributors to curb buying in San Diego, Cal.). There is no question that "Mexico's border industrialization program is aimed at penetrating the U.S. market, but there is little reciprocity." Robert R. Nathan Associates, Inc., *Industrial and Employment Potential of the United States-Mexico Border*, Washington, D.C., December 1968, p. 24).

With variations, similar practices are found in Jamaica, Trinidad and Tobago, Costa Rica, Philippine Republic, Salvador, Guatemala, Honduras, Netherlands Antilles, Dominican Republic and Haiti, to refer to but a few countries shipping apparel to the United States under Item 807.

PROMOTING RUNAWAYS

The lure of low wages and various concessions constitute the underlying theme in promotional efforts of governmental and non-governmental bodies designed to induce American apparel firms to shift some of their contracting operations abroad. Advertisements soliciting work are published in the trade press. Individual companies and trade associations are circularized. Some communications come directly from firms abroad. Letters are dispatched by stateside agents or operators of foreign plants, such as a recent one that promoted assembly of apparel, including beading and pearl crocheting, in the West Indies where "Thanks to special arrangements with the Ministries of Labor in the islands where our plants are located we are privileged to work at low labor costs". Some communications are sent out by economic missions of the foreign countries in the United States. Conferences are arranged to promote their areas, either under the auspices of educational institutions or by area development agencies. Promotion of an "inexhaustible labor supply [at] 30 Cents an Hour" is even circularized by stateside development agencies (this circular was sent to 709 apparel companies presumed to be "looking for a location outside the United States", in spite of the agency's own finding that 2,131 persons were seeking apparel industry jobs in its own community).

In the case of Mexico, promotion is carried on in the name of a "Twin-Plant Concept" which presupposes that two complementary plants will be established near the U.S.-Mexico border, one on each side, and operate under a single management. It is intended that stateside operations would be highly technical and capital intensive, while work in Mexico would center on labor-intensive operations. The rationale advanced by the "Twin-Plant" advocates has little meaning in the apparel industry. Even though operations related to the cutting of fabrics require, by and large, more skill than may be called for in subsequent processing, these tasks are neither highly technical nor capital intensive. By far the largest fraction of capital invested in the physical assets of a garment plant is for machinery and equipment used to sew, press and perform related operations.

JOB EROSION

On the average, roughly one production worker out of every 20 handles the work related to the cutting of fabrics; the other 19 production workers perform the subsequent operations. Thus, when cut piece goods are sent to be completed by a contractor in Mexico instead of being done in this country, somewhat fewer than 19 production-worker jobs are exported for slightly more than one job that remains over here.²³

In actual practice, despite claims made by misguided boosters this side of the frontier, "the success in promoting counterpart plants [in the United States] has been limited, and in only a few instances have important twin plants been established," partly due to "the lack of necessity to locate counterparts on the border."²⁴ Even though a few counterpart apparel plants have been established in the border region, most of the cut work flowing to Mexico for completion does not originate in the border area but elsewhere. In the meantime it appears evident that apparel industry employment in the border counties, where over 15,000 workers, many of them Mexican-American, made work clothing, jeans, slacks and children's wear, is beginning to decline.²⁵

²³ The slight change in ratios of workers from that used earlier in the same paragraph was made to account for the making of buttonholes on cut work that is likely to be done in this country rather than in Mexico to avoid the assessment of customs duties on the full value of the imported product. If goods are returned to this country before they are examined and finally pressed, the export of jobs approximates 18 for every 2 that may be retained in the United States. These ratios hold, on the average, whenever cut work is sent abroad for completion and returned to the United States under Item 807. These job losses are on top of rather than in lieu of job erosion brought about by increases in apparel imports.

²⁴ Robert R. Nathan Associates, Inc., *supra*, p. 43. This study concludes that "there are no bright prospects for new investment on the U.S. side of the border" (*Ibid.*, p. 92).

²⁵ This is reflected in the 1967 and 1968 data for apparel industry employment (U.S. Bureau of the Census, *Country Business Patterns*), and is supported by the observations made by union personnel in the area.

Erosion of stateside apparel industry jobs is not confined to the border area near Mexico, but is visible time and again when operations are switched abroad. A Whittier, Calif. knitwear plant shrunk from 400 to 200 employees when work was transferred to Mexicali, Mexico to thwart a union organizational drive. A Los Angeles firm making nurses' uniforms and smocks, in a similar situation, moved its plant elsewhere in the city where it employed less than 100 workers instead of some 200 previously employed; in explaining to its customers why some products were now marked "Assembled in Mexico with 100% U.S.A. Materials", the company argued that it was expanding its operations and that establishment of a Mexican plant "was inspired and developed by the United States Government in cooperation with Mexico to ease the shortage of trained operators in the U.S.A. and to give much needed employment to experienced Mexican operators."

Job displacement takes place even in the absence of union organizational activities. One unorganized Los Angeles jobber who used several unorganized contractors in the area to produce car coats has withdrawn work from several shops rendering their workers unemployed after he transferred some of his operations to Tijuana and Mexicali. In a similar situation, another non-union Los Angeles jobber forced 3 out of his 5 contractors in the area out of business when he removed his work to Tijuana. Similar occurrences take place in unionized firms as well. A recent union investigation uncovered that the reason for the curtailment of employment in the plants owned by an organized brassiere and bathing suit concern, as well as in the shops of its contractors, was brought about by the diversion of work to Nogales, Mexico. Diversion of work, with the resultant loss of employment, is not confined to Mexico although at the present time it is the largest recipient of cut work from the United States for subsequent export under Item 807. Employment was down when work was sent from upstate New York, New York City and New Jersey to Costa Rica, from Georgia and Illinois to Jamaica, from New York and Alabama to Trinidad, from New Jersey to the Philippines, and so on. These are but a few examples out of many that bespeak of layoffs and job disappearance.

GROWTH OF ITEM 807 IMPORTS

There is little doubt that the adoption of Item 807 in 1963 and its subsequent liberalization in 1965 stimulated a shift in apparel contracting to foreign countries. It thus enabled a number of domestic apparel producers to free themselves of the obligation to pay minimum wages and overtime premium pay required as a matter of public policy by the Fair Labor Standards Act.²⁶ It also eliminated the possibility of their run-away operations being organized by the ILGWU or ACWA.²⁷ The extremely rapid growth of apparel entering the United States under Item 807 testifies both to the speed with which advantage has been taken of this provision and of the inherent danger to future employment prospects in the domestic industry.

Data on goods imported under Item 807 were compiled by the U.S. Bureau of the Census beginning with 1965. Statistics on the dollar volume of such apparel imports for consumption, valued at the point of entry into the United States and shown by country of origin, are presented in Table 2 on the next page. The speed with which the dollar volume of these imports has been rising is indeed amazing. This can be seen more clearly from the index showing changes in the dollar volume of apparel imports under Item 807 on the base of 1965=100.0.

Year:	Index
1965 -----	100. 0
1966 -----	367. 6
1967 -----	705. 7
1968 -----	1, 387. 1
1969 -----	2, 342. 7

²⁶ "At least for the short run, it must be concluded that American labor policies are inconsistent. Minimum wage legislation and retraining and economic opportunity programs are all designed to alleviate American marginal worker unemployment and underemployment. Yet these very programs are questionable in effectiveness when U.S. firms relocate elsewhere—effectively passing over U.S. workers in favor of marginal workers in other areas." (Benjamin J. Taylor and M. E. Bond, *Mexican Border Industrialization in MSU Business Topics*, Spring 1968, p. 44).

²⁷ The last observation does not apply to Canada since both unions have members in that country.

In the first year for which data are available, Item 807 imports of apparel entered from only 9 countries. This number, rising steadily, was up to 33 nations in 1969. In 1965, shipments in excess of \$1,000,000 arrived from only one nation; in 1969, there were six.

The most rapid expansion was exhibited by Mexico. From an insignificant beginning in 1965, Mexico topped the shipments of every other country both in 1968 and 1969 by an exceedingly large margin; in 1969, it accounted for 42.5 percent of the total dollar volume of apparel imported under Item 807. Jamaica was the next largest with 15.8 percent of imports, followed by the Philippine Republic with 12.9 percent, Canada with 5.8 percent, Trinidad and Tobago with 5.8 percent and Costa Rica with 4.4 percent. The remaining 27 nations accounted for the 12.8 percent balance. Distribution of imports by region shows that 25.4 percent of total volume originated in the Caribbean countries and 9.0 percent in Central America. The rest of the world, exclusive of these two areas and Mexico, Philippine Republic and Canada, shipped only 4.4 percent of the total.

TABLE 2.—DOLLAR VOLUME OF IMPORTS UNDER ITEM 807 TSUS, APPAREL (KNIT AND WOVEN), BY COUNTRY
(IN VALUATION AT THE POINT OF ENTRY INTO THE UNITED STATES)

Country	1965	1966	1967	1968	1969
Bahamas			\$31,657	\$29,472	
Barbados			16,747	127,941	\$599,022
Belgium and Luxembourg		\$75,134	172,719		
British Honduras	\$337,301	321,765	344,385	560,433	817,602
Canada	24,670	1,080,780	489,717	262,427	2,360,247
China (Taiwan)		1,797		68,232	526,161
Colombia				33,009	371,039
Costa Rica			91,813	287,713	1,803,792
Dominican Republic		692	22,697	41,403	90,177
Finland					312
France		4,298			26,752
French West Indies			32,287	2,043	10,379
Germany (West)				747	23,278
Greece				1,360	
Guatemala			346		13,989
Haiti	208,135	101,681	136,864	278,066	817,305
Honduras		4,323	74,629	433,274	806,258
Hong Kong	110,917	387,839	495,345	471,895	324,068
India				1,705	
Ireland	3,962				
Israel					859
Italy	9,639	6,888	40,519	61,810	167,167
Jamaica	1,017,239	2,466,649	4,521,671	5,349,572	6,398,810
Japan			15,342	13,122	1,351
Korea				26,016	101,898
Leeward and Windward Islands		27,923	103,134	155,087	39,319
Malta and Gozo		270,439	44,034		
Mexico	9,325	1,344,381	3,977,424	10,117,931	17,235,333
Netherlands					5,775
Netherlands Antilles				4,311	3,092
Panama				2,428	98,301
Philippines		181,570	805,468	3,357,702	5,234,993
Poland					21,209
Portugal				774	32,229
Rumania					106,299
Salvador			1,615	18,655	117,692
South Vietnam			4,289		
Spain			2,088	20,220	33,483
Sweden		2,491			
Thailand			923		
Trinidad and Tobago		81,958	790,116	2,275,354	2,338,853
United Kingdom	9,189	305			10,356
Total	1,730,377	6,360,913	12,215,829	24,002,702	40,537,850

Source: U.S. Bureau of the Census.

TABLE 3.—DOLLAR VOLUME OF IMPORTS UNDER ITEM 807 TSUS, APPAREL (KNIT AND WOVEN), BY PRODUCT
(IN VALUATION AT THE POINT OF ENTRY INTO THE UNITED STATES)

[MB: Men's and boys'; WGI: Women's, girls', and infants']

Product	1965	1966	1967	1968	1969
Coats, MB			\$421,165	\$746,600	\$699,465
Coats, WGI		\$36,299	433,498	835,086	1,684,368
Rainwear		567	173,464	71,470	890,713
Suits, MB	\$1,563	363	27,703	59,460	133,057
Suits, WGI		14,734	25,580	120,337	737,054
Dresses, WGI	124,688	706,640	1,312,226	3,094,812	5,619,404
Shirts, not knit, MB	317,642	71,740	633,727	832,414	756,902
Shirts, knit, MB	278			2,027	9,974
Blouses, WGI	9,606	508,268	1,604,459	1,807,619	1,3,041,757
Sweaters	14,648	9,375	4,985	17,379	23,265
Skirts, WGI	2,426	230,190	1,146,720	1,728,988	1,425,172
Trousers, slacks and shorts, MB		9,310	1,047,752	1,260,045	1,944,104
Trousers, slacks and shorts, WGI	3,850	466,328	1,348,935	1,671,337	1,4,266,492
Playsuits, Washsuits, sunsuits			30,801	194,735	77,930
Underwear, MB		49,871	80,945		11,773
Underwear, WGI				376,271	584,013
Body supporting garments	304,161	2,292,575	4,200,954	5,509,156	7,830,952
Pajamas and other nightwear	1,136	765	20,441	136,780	182,932
Dressing gowns, bathrobes, beachwear		277,336	120,000	360,484	338,901
Neckties, MB			9,302	3,476	
Mufflers, scarves, and shawls			449	8,870	
Handkerchiefs	712				
Gloves		11,781	582,423	3,059,218	5,842,624
Other apparel	324,558	1,670,902	1,973,615	3,364,198	5,398,211
Total	1,730,377	6,360,913	12,215,829	24,002,702	40,537,850

† Figures adjusted for cotton products reported in sets under TSUSA 382.33.92.

Source: U.S. Bureau of the Census.

TABLE 4.—QUANTITY OF IMPORTS UNDER ITEM 807 TSUS, APPAREL (KNIT AND WOVEN), BY PRODUCTS

[MB: Men's and boys'; WGI: Women's, girls', and infants']

Product	1965	1966	1967	1968	1969
Coats, MB			59,880	173,242	175,200
Coats, WGI		6,349	153,446	156,870	325,617
Rainwear		72	31,320	16,920	87,840
Suits, MB	33		812	1,635	8,080
Suits, WGI		1,245	2,715	12,099	50,410
Dresses, WGI	104,172	105,038	400,593	1,204,873	1,689,068
Shirts, not knit, MB	275,088	56,712	651,516	521,028	621,852
Shirts, knit, MB	564			1,500	3,432
Blouses, WGI	4,404	188,181	1,265,327	1,046,128	1,2,103,720
Sweaters	3,551	2,544	13,383	12,192	7,407
Skirts, WGI	948	69,980	1,76,421	1,320,144	1,287,844
Trousers, slacks, and shorts, MB		5,247	614,688	893,532	1,376,710
Trousers, slacks, and shorts, WGI	2,400	464,352	1,155,097	1,084,480	1,2,727,992
Playsuits, washsuits, sunsuits			10,440	136,884	65,028
Underwear, MB		283,248	443,500		64,512
Underwear, WGI				1,785,648	1,502,484
Body supporting garments	44,352	3,847,248	6,365,224	9,718,584	13,155,168
Pajamas and other nightwear	276	996	12,000	74,004	96,768
Dressing gowns, bathrobes, beachwear		390,684	123,564	308,616	123,324
Neckties, MB			13,920	11,424	
Mufflers, scarves and shawls			240	36,000	
Handkerchiefs	4,080				
Gloves	pairs	11,328	393,948	2,726,640	4,363,392
Other apparel	pounds	524,591	405,785	871,483	1,353,658

† Figures adjusted for cotton products reported in sets under TSUSA 382.33.92.

‡ Excludes products valued \$361,318 for which quantity data was not reported.

Source: U.S. Bureau of the Census.

Information on the growth in import dollar volume of the different apparel articles entered for consumption under Item 807 are shown in Table 3 and data on their quantities are shown in Table 4. Despite the variability in the case of a small number of items and occasional breaks, most shipments are definitely moving up at a high rate. Either in dollars or in quantity, imports are concentrated in 7 key products, with the largest 1969 dollar volume of imports chalked up by body-supporting garments (mostly brassieres) followed, in descending order, by gloves; dresses; women's and girls' trousers; slacks and shorts; blouses; men's and boys' trousers; and women's and girls' coats.²⁸ About 8 percent of the total is accounted for by shipments (again in the descending order) to rainwear; men's and boys' shirts; women's and misses; suits; men's and boys' coats; and women's and girls' underwear.

Concentration is not limited to the type of apparel products imported under Item 807, but to their place of origin as well. Typically, the number of countries responsible for the bulk of imports of a specific article of apparel is small, not because of any particular advantage possessed by an area, but mostly due to the early stage of development of contracting operations in foreign countries. Names of countries where the bulk of the dollar volume of specific articles of imported apparel originates are shown in the listing below with percentages for each country rounded to the nearest 5 percent (whenever country figures add to 100 percent this does not preclude small shipments from other sources).

*Origin of Imports of Articles of Apparel, 1969 **

Product:	Countries of origin
Coats, MB-----	Mexico (80%) Canada (20%)
Coats, WG1-----	Mexico (85%) Canada (15%)
Rainwear-----	Canada (95%)
Suits, WG1-----	Canada (75%) Mexico (20%)
Dresses WG1-----	Mexico (60%) Jamaica (15%) Costa Rica (10%)
Shirts, MB-----	Trinidad (40%) Mexico (25%)
Blouses, WG1-----	Trinidad (50%) Mexico (35%)
Skirts, WG1-----	Mexico (85%)
Trousers, MB-----	Jamaica (70%) Mexico (30%)
Trousers, WG1-----	Mexico (90%)
Underwear, WG1-----	Barbados (50%) Mexico (35%)
Brassieres, WG1-----	Jamaica (40%) Mexico (25%) Costa Rica (15%) Honduras (10%) Philippines (5%)
Dressing gowns-----	Mexico (80%)
Gloves-----	Philippines (80%) Mexico (5%)
Other apparel-----	Mexico (50%) Br. Honduras (10%) Jamaica (10%)

*Abbreviated captions are provided for the different products in this summation; the more detailed designations are given in Tables 3 and 4.

VALUATION OF ITEM 807 IMPORTS

When dealing with the valuation of imported apparel under Item 807, such as is recorded in the statistics of imports, it is important to be cognizant that the valuation of such goods at their point of entry is really not the price at which such articles are available for sale in a foreign country, or for that matter anywhere else.

When contractors subject materials to subsequent processing required in the production of apparel, the end result is not an article they ever sell in the open market. The raw material of which the garment was manufactured is the property of the work supplier, a jobber or a manufacturer. The contractor merely bills him for the services performed, which cover labor costs, overhead and contractor's profit. In some cases, admittedly, a fictitious sales transaction does take place when a contractor is billed for the material supplied to him. However, after he completes the work, the contractor charges the jobber or manufacturer for the materials he processed at cost, i.e. at the same price as it was originally billed to him. No money is exchanged. The entire back-and-forth transaction is nothing

²⁸ This list does not include "Other apparel" shown in Table 3 despite the size of that entry because it is made up of a number of basket TSUSA classifications which cover a variety of heterogeneous products; their imports add up to about 13 percent of the total.

but a bookkeeping entry. All the contractor collects in the course of the transaction is the amount due him for the services rendered without regard to the contribution he actually made to the market price of the finished product. Nor is the contractor free to dispose of the completed article in the open market, despite the fact that he received a bill for the subsequently processed material. On the other hand, when the finished garment is offered for sale by the jobber or the manufacturer, the price at which it is sold to a third party, i.e. in the market place, is substantially higher than the mere addition of the cost of material and of processing by contractors and others.²⁹ The market price comprises an additional markup to take full account of the advances in value and improvements in condition obtained in the process of manufacture.³⁰

The artificiality of combining the cost of material used in the manufacture of garments abroad with the charge made by the foreign contractor for the determination of the market price of a particular product is made all the more apparent since many countries, such as Mexico, do not even allow goods processed for export to be sold within their boundaries. Even if they were, the market price would exceed the result of that sum.

It is recognized by the U.S. Customs Service that articles imported under Item 807 do not have a "price" in the standard meaning of the word. "It has been our experience," reports Mr. Adolfo Loera, Assistant District Director of Customs in El Paso, Texas, "that due to the circumstances surrounding the assembly of goods abroad, elements of value for appraisement purposes are ordinarily lacking to preclude the appraisement either export or United States value."³¹ Accordingly, to determine the value of such imports resort is made to the determination of constructive value in accordance with the provisions of Section 402(d) of the Tariff Act of 1930, as amended. It must also be recognized that the foreign shipper under Item 807 and the domestic recipients of such imports are not engaged in arm's length transactions—they are *de facto* transactions between related persons. It is extraordinarily difficult to establish, under those circumstances, what is the cost of producing the imported or similar merchandise, the usual general expenses and profit on sales of such merchandise made in the country of exportation in the usual wholesale quantities for shipment to the United States packed ready for shipping to this country. The representations made to the Bureau of Customs by the shippers and the receivers of apparel may well fail to make full disclosures, partly out of ignorance and partly out of design, needed for the determination of appropriate valuation of imports at their point of entry.

In order to test whether the constructive value of imported apparel under Item 807 did provide a reasonable approximation of true values (assuming all the requirements called for in the constructive value determination were met), a study was made of the relationship between dutiable value and total value for every TSUSA number for which apparel shipments were reported from Mexico for at least 2 years between 1965 and 1969. Under normal circumstances, there exists a substantial degree of stickiness over a period of time in the ratios of the value added to the total value, or price, for a given article of apparel. Were the values of imported apparel products fairly determined, a substantial stability in such ratios for the years for which data were available would be anticipated. Computations reveal that this was not the case. Instability was quite pronounced. To portray the range of variations for each TSUSA classification, computations were made of the percentage by which the highest ratio of dutiable value to total value exceeded the lowest ratio.³² The results are presented in Table 5 on the next page. Variability was below 10 percent in only 17 percent of the cases. It ranged from 10% to 50% in 32 percent of the cases, from 50% to 100% in 29 percent of the cases, and from 100% upwards to 621% in 29

²⁹ The degree to which sales prices exceed the sum of contracting and material costs can be seen from data presented in Annex Table 3.

³⁰ The situation is identical in the case of wholly-owned contracting or branch plants. These are manufacturing units not oriented to sell the finished product in the open market. Their charges to the headquarters' organization on completion of their processing are nothing more than internal bookkeeping conventions covering transactions between "related persons".

³¹ Adolfo Loera, *Returning Products to the United States* in University of Texas at El Paso, *Official Transcript: Executive Conference on World Trade Featuring The United States-Mexico Border Twin-Plant Concept*, April 28, 1969, p. 30.

³² Whenever TSUSA classification numbers were modified without changing the definition of the particular classifications, shipments under the old and the revised number were utilized for the purpose of the analysis.

percent of the cases. The existence of high variability throws the existing procedures for the determination of the constructive value of apparel into question and demonstrates the need to review them. Studies are also called for to insure that the determined values do not understate the true market values of goods shipped under Item 807 and that such determinations are not limited to the sum of the declared values of materials sent outside the United States and the payments made to apparel contractors abroad. The need for the investigation is not dependent on the possible elimination of Item 807 from the TSUS and the imposition of full duties on all products processed abroad irrespective of whether or not the particular operations involve the assembly of components that are "the product of the United States." So long as apparel contracting is performed for the United States market in foreign countries, proper valuation procedures will remain essential.

TABLE 5.—VARIATIONS BETWEEN RATIOS OF DUTIABLE VALUE TO TOTAL VALUE, IMPORTED ARTICLES OF APPAREL FROM MEXICO, REPRESENTED IN PERCENTAGES BY WHICH HIGH RATIOS EXCEED LOW RATIOS, 1965-69.

Deviations of high over low ratios (percent)	Number of TSUSA's with reported shipments				Total
	For 2 years	For 3 years	For 4 years	For 5 years	
9.9 or less.....	18	1	-----	-----	19
10 to 29.9.....	12	7	3	-----	23
30 to 49.9.....	6	5	2	-----	13
50 to 99.9.....	14	3	8	-----	25
100 to 149.9.....	7	5	1	2	15
150 to 199.9.....	1	3	1	-----	5
200 to 249.9.....	-----	1	3	-----	4
250 to 349.9.....	1	3	1	-----	5
350 and over.....	-----	2	1	-----	3
Total.....	60	30	20	2	112

Source: U.S. Bureau of the Census, "U.S. Imports of Merchandise for Consumption Assembled Abroad in Whole or in Part from U.S. Components, 1A 245-A."

THE PRODUCT OF THE UNITED STATES

At the present time domestic firms are taking advantage of Item 807 because the imported articles of apparel processed outside the United States were presumably "assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating, and painting."

Two questions arise. The first deals with the identification of components sent abroad by American garment firms as "the product of the United States". The second deals with the applicability of Item 807 to the production of finished garments abroad out of cut materials sent there from the United States.

One thing is certain. After piece goods leave a cutting room as component pieces of different shapes, their place of origin is indeterminate. Whatever identification might have been found on bolts of material to show whether they were of United States or foreign origin before they were spread out on cutting tables is no longer available after cutting is completed. The fact that fabric of foreign origin was stretched on a cutting table in the United States, and then cut and bundled does not convert it into a product of the United States. For at most, the value of cut materials exceeds that of uncut fabric by less than 5 percent. This is hardly sufficient to convert piece goods originating abroad into a domestic product.

Neither the Tariff Act of 1930, as amended, nor the TSUS define a "product of the United States." The definitional problem does not arise when components are cut out of materials manufactured in this country. It does arise in situations similar to the ones described in the preceding paragraph when material produced abroad is cut within the tariff boundaries of the United States. An appropriate guideline for defining what constitutes a product of the United States is provided, however, by definitions found in the TSUS of products of Insular

Possessions and of Canada. A product of Insular Possessions cannot contain foreign materials valued at more than 50% of its total value. Canadian articles must not contain a product of a foreign country (unless produced within the customs territory of the United States) valued at more than 50 percent of its total appraised value.³³ Certainly, the standard cannot be less exacting in the case of a product of the United States than in the case of a product of Insular Possessions or Canada. In view of the small accretion in the value of fabrics of foreign origin when they are cut in the United States and shipped for further processing abroad, they remain articles of foreign origin. As such the re-imported garments made of these materials cannot and should not qualify under Item 807.

It is of course impossible to determine physically the national origin of cut materials sent abroad for processing. Frequent commingling of domestic and imported fabrics in the cutting rooms poses an additional problem. In view of the ease with which written requirements can be evaded, export declarations, affidavits and other documents originating with the party at interest cannot be deemed to be "the best proof of American origin."³⁴ No proper solution to the problem can be found. It will, however, be moot if and when Item 807 is removed and other loopholes that may be found on our statute books and regulations are closed.

ASSEMBLY OF FABRICATED COMPONENTS AND ITEM 807

There exists a serious doubt whether Item 807 can apply to the entry of articles of apparel made abroad from components, i.e. cut materials, sent there from the United States. The language of Item 807, of course, is clear. Components out of which the garments are to be made abroad cannot be subject to further fabrication except assembly. Components cannot be changed in form, shape or otherwise. Nor can they be advanced in value or improved in condition abroad except by being assembled and by operations incidental to assembly process such as cleaning.³⁵ When a question arose regarding the making of buttonholes on a piece of material, it was resolved by a ruling that recognized that the particular operation did indeed improve the component and it could not qualify for customs purposes under Item 807. There exist, however, numerous operations which have to be performed on articles of apparel on their way to completion that violate the injunction set forth in Item 807. Yet in most instances it is impossible to determine to what extent individual components were subjected to further fabrication, changed in form, shape or otherwise, or whether they were advanced in value for reasons unrelated to assembly.

There are numerous processes performed in the production of finished garments from cut materials that constitute fabrication on components, that change their form, shape or other properties, and advance them in value and improve them in condition for reasons unrelated to assembly. This is as true abroad as it is in the United States. The following is a partial listing of some of these operations, all of them performed after cut fabrics enter the process of subsequent manufacture:

- Pinking the edge of a fabric component of a garment (i.e. making a tooth pattern at the edge of the fabric), mostly near the seams, by special cutting devices operated either independently or attached to a sewing machine
- Cutting strips of fabric previously sewn into a tubular form to required length to be used in the making of dress belts, belt loops, shoulder straps, etc.
- Cutting shoulder strap ribbon to required length (in process of sewing)
- Cutting off surplus fabric outside stitching delineating scallop formations
- Cutting off surplus fabric after making a tuck (i.e. a fold of fabric on a garment part that is stitched in place)
- Cutting away protruding lining at the bottom or at armhole or sleeves
- Trimming waistbands and trouser legs evenly to required dimensions

³³ TSUS (1970). *General Headnotes and Rules of Interpretation*, 3(a) and 3(d).

³⁴ The impossibility of relying on affidavits is illustrated by a solicitation sent to a large number of stateside apparel firms regarding the possibility of "hand-assembling, sewing or otherwise processing components or articles" abroad. At no time did it suggest that such "components or articles" must be the product of the United States. On the other hand, it assured potential clients that "Re-entry of finished product to U.S. incurs duties only on cost of labor applied" and that the offer included the handling of "all export and re-import formalities."

³⁵ References to lubrication and painting have no application to apparel manufacture.

Trimming bottom edges of dresses or other garments to make them straight before making a bottom hem
 Cutting slashes through cloth or a coat panel or a trouser part for darts or pocket openings
 Trimming fabric edges after assembly of some components, but before other operations, to assure better fit
 Trimming pocket linings to even them up with pocket openings
 Cutting canvas undercollars and top and bottom collar facing pieces to shape with shears and trimming collar edges
 Trimming top and bottom edges of coats with shears following templates or previously marked chalk lines
 Trimming stiffening material to fit coat fronts, collars or lapels before sewing them in to assure fit
 Cutting lace, i.e., cutting cloth with scissors from behind the lace after it has been attached to the garment.
 Making visible holes in the fabric to produce decorative effect (done in the process of sewing)
 Making a picot edge on the bottom of a dress or a skirt by cutting machine-hem-stitching in half and thus creating an edge with tiny points
 Stretching the fabric beyond its pre-sewed length in the process of sewing
 Starching garments before pressing
 Pressing garment component parts or the partially or fully completed garments.³⁰
 Creasing fabric pieces to form crease patterns in fabric, such as folding over the edges of fabric prior to submitting the fabric to a sewing operation
 Pleating fabric pieces to form a series of creases or eruptions in the surface contour of a fabric
 Curing garments in specialized ovens or by means of special high pressure and high temperature pressing machines to modify the characteristics of the fabric and to make the garment dimensionally stable, enabling it to retain original creases, pleats, and shape through the life of the garment and otherwise not require ironing by the ultimate user ("Permanent Press")

Numerous essential sewing operations are also performed in the process of garment manufacture, other than those that are involved in assembling components, which advance the value of component parts in the process. The following is a partial listing of some of these operations:

Stitching over two pieces of fabric previously assembled either by a permanent seam or by a basting seam
 Closing of the sleeve (i.e. making the tube out of a single fabric component)
 Closing a skirt made out of a single piece or circular-cut cloth
 Sewing together strips of fabric to make shoulder strap runners, belt loops or dress belts by folding in the edges of a single strip of fabric and sewing them together to form a tube
 Stitching over an edge of fabric (known as overcasting, overedging, overlocking or serging) prior to seaming pieces of fabric together to prevent ravelling or fraying (in some cases such machines are equipped with cutting attachments to trim the edge of fabric before the sewing is done)
 Sewing tucks (i.e. folds of fabric stitched in place to shape or shorten garments, to hold fullness or as a decoration) on single fabric components
 Bartacking or tacking (i.e. reinforcing openings or junctions in cloth such as occurs at pockets, belt loops, fly openings, and ends of seams by sewing a series of short, close stitches across the point to be reinforced)
 Top stitching (i.e. applying a stitch from the right side on both sides of the seam line after the two fabric components are already assembled, seams are pressed open and their raw edges pinked or overcast)
 Smocking (i.e. gathering the cloth component in regular folds to form honey-combed or diamond patterns)
 Shirring (i.e. gathering the cloth component into a series of small pleats or tucks that are thereafter stitched in place to produce a ruffled effect)

³⁰ "Pressing is any moulding process which varies the fabric's geometric structure or characteristics by applying mechanical pressure (solid or air) to the fabric" (Jacob Solinger, *Apparel Manufacturing Analysis*, New York, Textile Book Publishers, Inc., 1961, p. 396).

Making darts (i.e. a shaped tuck designed to help fit the garment to figure at the underarm, shoulder, waistline, etc. by stitching together two lines on a fabric component which converge to a point; extra material may be cut away)

Pinching (i.e. making an individual miniature pleat in the line of sewing)

Ruffling (i.e. making a sewing line whose stitches hold a series of miniature fabric side pleats)

Making of trouser cuffs by folding and tacking the fabric edges in place

Hemming (i.e. folding the edge of material on the bottom of the garment, turning the raw edge under, then making a second turn to conceal the first, and stitching it in place). Hems may be flat or rolled

Hemstitching (i.e. making a decorative finish by pulling out a number of parallel threads at the op of a hem, catching up an even number of the remaining threads, drawing the thread around them and securing them by a stitch in the edge of the hem turn)

Fagotting by drawing a thread out of the fabric (as in hemstitching) and catching the remaining threads together by interlacing the threads

Embroidering or making monograms by hand or machine on component parts

There are a number of other operations that are also found in garment manufacture which do not involve the assembly of garments but which in the process enhance the value of the component parts for reasons unrelated to assembly. Among such operations will be found:

Turning assembled parts, such as collars, cuffs, belts and neckties, right-side-out to prepare them for subsequent operations by the use of appropriate tools or equipment

Marking button locations in the sewing room with or without templates

Riveting of finished seams (mostly on work clothing)

Pulling basting

Pairing or matching cut out or assembled garment parts by color, type of fabric, or size, prior to subsequent processing

It can thus be seen that the process of making an article of apparel out of pre-cut components is not limited to assembling two or more components, but that it is much more complex. As components move to completion, numerous transformations occur which change the value of components for reasons unrelated to assembly, change their form and shape, and subject them to fabrication other than assembly. These varied operations are an inherent part of apparel manufacturing just as the operations involving assembly of components. Thus the entry of articles of apparel presently taking advantage of customs duties under Item 807 does not seem justified under the law. The importer is not in a position to prove what component parts were in deed modified in the process of manufacture abroad. Neither is the exporter. Except declarations, affidavits and other documents presented by parties at interest are not "the best proof" because of the likelihood that every component part of a garment was affected by factors, other than assembly, that made it ineligible for entry under Item 807.

IN CONCLUSION

There is little doubt that the promulgation of Item 807 served as a catalyst to run-away apparel production abroad. In addition to the stimulus of lower customs duties under Item 807, a spur was also provided by the subsidies offered by foreign governments and extremely low wages, a small fraction of those in this country. As a result, the dollar volume of Item 807 apparel imports (valued at the point of entry) rose by a stupendous 2,243 percent in a short span of five years (considering the deficiencies in valuation, the actual rise may even have been greater). This is shocking, particularly since it comes on top of the already excessive expansion in the level of other apparel imports.

In a highly competitive industry such as apparel, increased imports provide an impetus for more domestic firms to run away to foreign countries and, in the process, curtail or discontinue production in this country. This bodes ill for the industry's workers in the form of greater unemployment, an erosion of job opportunities for which they were suited and little likelihood of alternative work.

Where foreign governments offer subsidies to induce firms to produce apparel in their countries for export to the United States, countervailing duties must be imposed as already called for by our existing law.

The apparent deficiencies in the valuation of apparel imported under Item 807 call for a thorough review of existing procedures to assure a sound deter-

mination of the true market value of such products for customs duty purposes. This must be done, irrespective of whether duty is assessed under Item 807 or on the full value of the imported article, whenever transactions are between "related persons" as is the case of work done abroad by contractors or by branch plants of domestic firms.

So long as Item 807 is still on the books, the present practices regarding entry of articles of apparel produced abroad from materials cut in the United States require a total reconsideration. There is no justification for allowing garments made abroad of foreign-made goods cut in the United States to enter this country under Item 807. Moreover, the likelihood is overwhelming that no article of apparel produced abroad out of materials cut in this country (regardless of the origin of material used), once the issues in question are re-examined, would qualify for entry under Item 807 due to the fact that all its component parts are affected by factors, other than assembly, that make them ineligible.

The interest of the United States would be best served if Item 807 were removed from our books together with other loopholes, if any, that permit the entry of goods on payment of partial customs duties. We therefore support the passage of H.R. 14188 by the Congress of the United States.

ANNEX TABLE 1

Branches of the apparel (knit and woven) industry, by standard industrial classification code number

Branch of Industry:	SIC Code
Knit outerwear mills.....	2253
Knit underwear mills.....	2254
Knitting mills, not elsewhere classified.....	2259
Men's, youths', and boys' suits, coats and overcoats.....	2311
Men's, youths', and boys' shirts (except work shirts), collars and nightwear.....	2321
Men's, youths', and boys' underwear.....	2322
Men's, youths', and boys' neckwear.....	2323
Men's, youths', and boys' separate trousers.....	2327
Men's and boys' work clothing.....	2328
Men's, youths', and boys' clothing, not elsewhere classified.....	2329
Women's, misses' and juniors' blouses, waists, and shirts.....	2331
Women's, misses' and juniors' dresses.....	2335
Women's, misses' and juniors' suits, skirts, and coats, except fur coats and raincoats.....	2337
Women's, misses' and juniors' outerwear, not elsewhere classified.....	2339
Women's, misses', children's, and infants' underwear and nightwear.....	2341
Corsets and allied garments.....	2342
Girls', children's, and infants' dresses, blouses, waists, and shirts.....	2361
Girls', children's, and infants' coats and suits.....	2363
Girls', children's, and infants' outerwear, not elsewhere classified.....	2369
Dress and work gloves, except knit and all leather.....	2381
Robes and dressing gowns.....	2384
Raincoats and other waterproof outer garments.....	2385
Leather and sheep lined clothing.....	2386
Apparel belts.....	2387
Apparel, not elsewhere classified.....	2389
Pleating, decorative and novelty stitching, and tucking for the trade.....	2395
Apparel finding and related products (except for automobile and furniture trimmings, and hat and cap materials).....	2396
Schiffli machine embroideries.....	2397
Fabricated rubber products, not elsewhere classified (insofar as it includes vulcanized rubber clothing).....	3069
Miscellaneous plastic products (insofar as it includes plastic clothing).....	3079
Leather dresses, semidress, and work gloves.....	3151
Orthopedic, prosthetic, and surgical appliances and supplies (insofar as it includes surgical corsets, belts, trusses, and similar articles).....	3842
Feathers, plumes, and artificial flowers (insofar as it includes artificial flowers).....	3962

ANNEX TABLE 2

RELEVANT ITEMS OF APPAREL (KNIT AND WOVEN) IN THE TARIFF SCHEDULES OF THE UNITED STATES

TSUSA 353.50 (part)	TSUSA 372.80 through TSUSA 373.30
TSUSA 370.04 through TSUSA 370.20	TSUSA 376.04 through TSUSA 382.87
TSUSA 370.48 through TSUSA 370.68	TSUSA 704.05 through TSUSA 705.90
TSUSA 370.76 through TSUSA 370.84.20	TSUSA 709.57 (part)
TSUSA 370.88.20	TSUSA 748.12
TSUSA 370.92	TSUSA 748.20 through TSUSA 748.21
TSUSA 372.04 through TSUSA 372.15.40	TSUSA 772.30
TSUSA 372.20 through TSUSA 372.60.20	TSUSA 772.42 (part)
TSUSA 372.65.20	TSUSA 791.60
TSUSA 372.70	TSUSA 791.70 through TSUSA 791.75
TSUSA 372.75.20	

ANNEX TABLE 3

MARKUPS TAKEN ON TOP OF MATERIAL AND CONTRACTING COSTS TO OBTAIN MARKET PRICES

The extent to which market prices exceed the sum of material costs and those of contracting can be gleaned from the data in the Census of Manufactures showing detailed breakdown of costs for jobbers in the different branches of the apparel industry. In view of the fact that articles of apparel entering under Item 807 were produced out of materials cut in the United States, in making the calculations shown below the full wage expenditures of jobbers were added to the cost of materials, containers and supplies, thus exaggerating materially the labor costs involved in preparation of cut materials and in turn understating the amount of markup shown below.

(In thousands of dollars)

Branch of industry	Cost of materials, wages, and contracting ¹	Value of shipments	Percent of markup on costs
Suits and coats, MB.....	\$402,913	\$513,591	27.
Dress shirts and nightwear, MB.....	291,526	352,199	20.8
Neckwear, MB.....	9,210	13,889	50.8
Separate trousers, MB.....	213,995	258,733	20.9
Work clothing, MB.....	212,268	271,781	28.0
Other clothing, MB.....	70,605	86,240	22.1
Blouses, waists, shirts, W.....	232,258	297,691	28.2
Dresses, W.....	869,560	1,156,772	33.0
Suits, coats, and skirts, W.....	620,095	786,096	26.8
Other outerwear, W.....	231,354	311,224	34.5
Underwear and nightwear, WGI.....	181,978	221,493	21.7
Corsets and allied garments.....	35,839	45,216	26.2
Dresses and blouses, GI.....	112,834	142,788	26.5
Coats and suits, GI.....	48,899	62,149	27.1
Other outerwear, GI.....	139,151	180,574	29.8
Fabric dress and work gloves.....	7,164	9,170	28.0
Robes and dressing gowns.....	67,624	85,141	25.9
Waterproof outer garments.....	43,181	56,888	31.7
Leather and sheeplined clothing.....	5,072	8,703	71.6

¹ These jobbers' disbursements are for materials, containers, and supplies; wages of his production workers; and amounts paid to contractors.

Notes: MB, men's and boys'; WGI, women's, girls' and infants'; W, women's, misses' and juniors'; and GI, girls' and infants' (children's).

Source: U.S. Bureau of the Census, "Census of Manufacturers, 1963."

STATEMENT OF JOHN S. VOORHEES, COUNSEL, BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION

For the reasons set forward in this statement, the Business Equipment Manufacturers Association opposes H.R. 14188, a bill to amend the Tariff Schedules of the United States to repeal the special tariff treatment accorded to articles as-

sembled abroad with components produced in the United States. (TSUS Item 807.00)

As your Committee is aware, on August 18, 1969, President Nixon asked the U.S. Tariff Commission to initiate an investigation into the economic factors affecting the use of Item 807.00 of the Tariff Schedules and to file a report with respect to its continuation. Pursuant to that request, the Commission has held extensive hearings and compiled voluminous data concerning utilization of TSUS Item 807.00 by U.S. industry. Testimony has been heard from both its advocates and opponents.

The expense associated with compliance with the Commission's request for data, both in time and money, may be unprecedented.

Hearings are now complete, and the Commission and its staff are currently engaged in the evaluation of massive data for purposes of complying with the President's request for a final report by August 31, 1970.

Numerous U.S. manufacturers of business equipment have filed with the Commission extensive data on their use of TSUS Item 807.00 on an individual company basis. A number have submitted statements to the Tariff Commission, as has the Business Equipment Manufacturers Association.

As a consequence of the analysis of Item 807.00 usage precipitated by the Commission's investigation, we have concluded that it is in the best interests of the business equipment industry, its employees, and U.S. trade objectives as a whole that this provision be retained. We have urged such a position before the U.S. Tariff Commission and feel that careful analysis of the relevant factors will lead to such a recommendation by the Commission.

We have concluded that such duty treatment as is provided by Item 807.00 for U.S. manufactured components assembled abroad enables American manufacturers to compete more effectively in U.S. and foreign markets and thereby contributes favorably to increased U.S. production, employment, and trade balances.

For the reasons stated herein, we strongly urge that the committee reject H.R. 14188, or any other legislative proposal which may be put forth to repeal Item 807.00 of the Tariff Schedules of the United States.

In the alternative, we propose that the Committee at least defer action on H.R. 14188 pending completion by the Tariff Commission of its current in-depth proceeding regarding this same issue. The complex economic facts which the Commission is now gathering, and on which its recommendation to the President will be based, should not be by-passed in favor of precipitous action by the Congress.

The Provisions of the Tariff Schedules

Item 807.00 of the TSUS, one of several special classification provisions relating to articles exported and returned to the United States, provides for a partial exemption from duty for

"Articles assembled abroad in whole or in part of fabricated components, the product of the United States, where (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating, and painting."

The rate of duty on such products is a duty upon the full value of the imported articles, less cost or value of such products of the United States.

Historical Treatment of Such Transactions

The historical basis for the type of duty treatment now codified in Item 807.00 is a product of the judicial and administrative interpretations of paragraph 1615(a) of the Tariff Act of 1930. Its current application is based upon testimony and other historical material prepared and submitted to Congress by the Tariff Commission pursuant to the Customs Simplification Act of 1954.

In 1954, the Customs Court,¹ in a decision involving the installation of an American-built motor in a Canadian-built boat, held that the American components were exempt from tariff levy because they did not advance the value of the motor or improve its condition and because identity of the American good was not lost by reason of the combination. This decision overruled an Admin-

¹ *C. J. Tower & Sons v. United States*, Cust. Ct. 14, C.D. 1628.

istrative ruling by the Deputy Commissioner of Customs dated April 13, 1949, which had reversed practices in effect until that time.

Applying the above decision, the Customs Bureau allowed duty-free² entry of American-made components assembled into foreign articles under the theory of "constructive segregation," (i.e., where components are capable of being identified and removed without injury to themselves or the articles into which they have been assembled). This test, and that which related to component advancement or improvement noted above, was considered arbitrary and unrealistic by the U.S. Tariff Commission. Consequently, in its codification of treatment afforded to U.S. components exported for assembly and return (now referred to as TSUS Item 807.00), the Commission expressed its view to Congress that the real issue in such cases is the matter of proof to be required that an American part has been assembled into the imported article and that it has been assembled therein without having changed its condition.

Item 807.00 is not now based upon the theory of the absence of advancement or improvement. On the contrary, the present assumption is that there has been such, but allowable advancement or improvement is limited to "that which is brought about solely by the act of assembly." The "constructive segregation" or "removal without injury" concepts have been replaced by appropriate requirements for proof by the manufacturer of compliance with the provision itself.

In providing for assessment of duty on the basis of foreign value added, in the case of articles assembled abroad in whole or in part of products of the United States (Item 807.00), and the similar treatment accorded the processing of metals (Item 806.30), Congress has not singled out particular products for preferential treatment. On the contrary, concept applied is not at all unique.

For example, Item 800.00 provides for duty-free entry for Products of the United States when returned after having been exported, without having been advanced in value or improved in condition by any process of manufacture or other means while abroad.

Similarly, Item 801.00 provides for duty-free entry of the following category of articles: "Articles, previously imported, with respect to which the duty was paid upon such previous importation, if (1) reimported, without having been advanced in value or improved in condition by any process of manufacture or other means while abroad, after having been exported under lease to a foreign manufacturer, and (2) reimported by or for the account of the person who imported it into, and exported it from, the United States."

Scientific and educational exhibitions, as well as public exhibitions and those associated with circuses and menageries, are given duty-free treatment under TSUS Items 802.10, 802.20, and 802.30 as "articles returned after having been exported for use temporarily abroad."

Photographic films and dry plates manufactured in the United States (except motion picture film to be used for commercial purposes) and exposed abroad are accorded duty-free treatment under provisions of Item 805.00.

Item 806.10 provides for a duty upon the "change in condition" with respect to books returned to the United States after having been exported to be advanced in value or improved in condition by any process of manufacture or other means. Likewise, under the terms of Item 806.20, articles exported for repairs or alterations are subject to a duty upon return based upon "value of repairs or alterations."

Substantial containers and holders, if products of the United States, are admitted duty-free upon return to this country.

Policy considerations inherent in each of these situations, and those involved in Items 806.30 and 807.00, were reflected in the statement of Congressional intent which was clearly enunciated by the Court of Customs Appeals in the case of *Denike v. United States* (5 Ct. Cust. Appls. 364, T.D. 34553), wherein it was expressed: "Having in mind the purpose of Congress to favor goods the growth, produce, or manufacture of the United States, we think that merchandise imported into the country made up in part of American goods entitled to free entry and in part of goods not entitled to free entry should not be assessed for duty as entireties if the components of the importation are in fact distinct articles and so distinguished one from the other, that their several dutiable quantities, weights, measures, or values may be correctly ascertained."

² The expression "duty-free" in connection with such transactions is potentially misleading. In fact, goods and services of foreign origin are subject to full duty, as are profits and overhead related thereto.

THE BUSINESS EQUIPMENT INDUSTRY

Business Equipment Manufacturers Association

The Business Equipment Manufacturers Association is the trade association representing American computer and office machines and equipment manufacturers.

Manufacturers of business equipment and related products have made substantial use of Item 807.00 and have made significant investments in time and capital in off-shore assembly facilities and operations in anticipation of the continuing opportunity to utilize this provision of the Tariff Schedules.³

Industry Products

The 70-plus companies which comprise current BEMA membership⁴ include major computer, office machine, and office furniture manufacturers. While product lines of those member companies vary widely, the following are intended to be illustrative: typewriters, bookkeeping machines, accounting machines, adding machines, calculating machines, electronic computers, addressing machines, duplicating machines, cash registers, dictating machines, check-writing machines, postage meters, folding machines, inserting machines, collating machines, office type staplers, office copying machines, keypunch machines, computer input and output devices, computer storage devices, computer communication devices, optical character readers, key data recorders, visual display devices, disc packs and drives, computer memories, remote terminals, data transmission equipment, and office furniture including desks, chairs, files and visual equipment.

Sales

The contribution to the U.S. economy made by the companies comprising the business equipment industry has been, and will continue to be, significant. Statistical data with respect to the size and growth of the business equipment industry can convey only an incomplete picture, but is illustrative of the part this industry plays in the American way of life.

For example, values of business machines which in 1960 had been \$0.8 billion⁵ had risen by 1969 to \$10.9 billion. In 1970, these figures are expected to reach \$12.3 billion!⁶

From 1970 through 1969, expansion of industry shipments averaged 17 percent a year.

Exports and Trade Balances

Exports of business machines over the years have been significant both in terms of their absolute value and of their contribution to our national objective of surplus trade balances.

Total value of exports of business equipment in 1969 exceeded \$1.1 billion, an increase over the figure for the previous year of 37 per cent. In five years exports of business machines have more than doubled, as is evidenced by the following table:

U.S. exports of business machines

[In millions of dollars]

1965	-----	\$479.9
1966	-----	558.3
1967	-----	783.5
1968	-----	835.0
1969	-----	1,100.0

Exports of computers have risen nearly fourfold since 1964, when \$217.9 million in such equipment was shipped abroad. In 1969, value of such shipments was \$728 million.

Bookkeeping and accounting machines have for several years been the second leading category of business machines exports, representing 10 per cent of the

³ Unless otherwise stated, the statistical data included in this statement is confined to computers and office machines, which represent the principal use of Item 807.00 by BEMA member companies.

⁴ See Appendix for list of members of BEMA.

⁵ Patterns of Industrial Growth Shipments of Office, Computing, and Accounting Machines, 1958-1967, Issued April 1969, BDSA—U.S. Department of Commerce.

⁶ U.S. Industrial Outlook 1970, BDSA—U.S. Department of Commerce. These totals do not include the dollar value of much computer peripheral equipment.

total in 1969. By 1969, value of such shipments exceeded \$119 million as compared with \$87 million in 1967 and \$42.6 million in 1964.

Photocopying equipment and statistical machines each accounted for \$58 million in exports during 1969, or 5 per cent of the export total.

Surplus Trade Balances

As significant as the level of export sales of the products of this industry are, their contributions to our national policy objective of a favorable balance of trade is of equal consequence.

The principal contributors of this industry to that favorable trade balance are computers, bookkeeping and accounting machines, statistical machines, photocopying equipment, and typewriters.

In 1965, for example, exports of business machines (\$479.9 million) exceeded imports by over \$336 million; in 1966, that surplus was \$367.5 million; in 1967, exports of \$788.5 million represented a trade surplus of nearly \$559 million.

By 1968 exports had risen to \$835 million, yielding a surplus of \$576 million.

Finally, last year, exports of business machines provided the U.S. economy with a plus factor in the trade balance of \$725 million, when exports exceeded \$1.1 billion, a new record.

Imports

Notwithstanding these favorable trade balances, we have witnessed in recent years a substantial increase in imports of business equipment consisting primarily of less sophisticated product lines.

For example, imports of calculating machines, which represented 29 per cent of total imports of business machines in both 1968 and 1969, led the list in both years. Typewriters and parts were second, with 19 per cent in 1969 and 26 per cent in 1968. The remaining products comprising the list of principal imports of business equipment are adding machines, office copying machines, data processing machines, and parts for all office machines.

Employment and Income in National Perspective

From 1960 to 1968, the total number of employees in the office machine, equipment, and computing industry increased 67 percent, while the employment in all manufacturing operations increased by only 18 percent.⁷

In that same time period, the number of production workers in the office machine, equipment, and computing industry increased by 40 percent, while the number of production workers in all manufacturing increased by only 15 percent.⁸

Earnings of production workers in the office and computing industry have been historically attractive. For example, weekly earnings in this industry in 1968 were \$137.45 compared to \$122.51 for all manufacturing. Average hourly earnings of production workers showed a similar pattern in 1968, begin \$3.32 for this industry as compared with \$3.01 for all manufacturing.⁹

Further illustrating the favorable employment pattern of the office machine and computing industry are comparative data on the three industry divisions, separately, with all manufacturing operations. Because government statistics by divisions are comparable only for the years 1964 through 1967, this period is used for this purpose.¹⁰

Total Number of Employees by Industry Divisions

While the total number of employees engaged in manufacturing increased by only 12 percent from 1964 to 1967, the total number for computing machines increased 40 percent, for typewriters 41 percent, and for other office machines 25 percent. For the office and computing machines industry, as a whole, the total number increased 38 percent compared to the 12 percent for all manufacturing.¹¹

Total Payroll by Industry Divisions

Total payroll increased only 24 percent for all manufacturing employees from 1964 to 1967. This is to be contrasted with comparative figures for computing

⁷ Employment and Earnings, 1969 Revision, U.S. Department of Labor (unpublished).

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ Because products classifications of the *Industry Divisions* are revised from time to time, only the period 1964-1967 can be used for these comparisons.

¹¹ Industry Profiles 1958-1967, U.S. Department of Commerce, Business and Defense Services Administration.

machines, where the increase was 51 percent, for typewriters 51 percent, and for other office machines 34 percent. In the office and computing machines industry as a whole, the increase was 49 percent as compared to 24 percent for all manufacturing.¹²

Number of Production Workers

For all manufacturing, the increase in number of production workers from 1964 to 1967 was only 13 per cent; for computing machines, it was 36 per cent; for typewriters, 42 per cent; and for other office machines, 21 per cent. For the office and computing machines industry as a whole, the increase was 35 per cent as compared to 13 per cent for all manufacturing.¹³

Total Wages of Production Workers

For all manufacturing, total wages of production workers increased only 23 per cent from 1964 to 1967; for computing machines, they increased 44 per cent; for typewriters, they increased 58 per cent; and for other office machines, they increased 29 per cent. For the office and computing machines industry as a whole, the increase was 44 per cent as compared to 23 per cent for all manufacturing.¹⁴

BASIS FOR UTILIZATION OF ITEM 807.00 GENERALLY

The Need to Compete Effectively

The business equipment industry's remarkable growth pattern, its export levels, contributions to favorable trade balances, employment levels, and the attractive income opportunities it affords are a direct product of its ability to compete in the world market. The ability of the U.S. segment of this industry to continue this upward course depends upon the flexibility it is afforded in meeting challenges from its foreign counterparts.

Business equipment manufacturers face constant and increasing pressure from abroad to reduce costs to perpetuate initial competitive advantages which have generally resulted from initiative in new product development in this country. Experience has shown, however, particularly with respect to less sophisticated equipment, that foreign manufacturers are steadily increasing their share of the world market. Typewriters are an excellent case in point.

As a consequence, unless U.S. manufacturers are to abandon the fruits from production of their invention and engage only in the exercise of research, they must find ways to compete effectively for domestic and foreign sales of products—subsequent to the time when the technology of a new product has become available to the rest of the trading world.

In some cases, use of foreign-based assembly operations for American manufactured components have proven a key element in enabling the U.S. manufacturer to compete effectively against the foreign manufacturer in the U.S. market and in foreign markets. That is what Item 807.00 is all about—and that is the basis for opposition of business equipment manufacturers to its repeal.

PRINCIPAL IMPETUS TO ITEM 807.00 TYPE OPERATIONS

Members of the Business Equipment Manufacturers Association, as manufacturers of a wide range of products, are subjected to a variety of competitive conditions. As a consequence, they utilize Item 807.00 for a number of reasons, all of which are directed at the improvement of their competitive position with respect to foreign competition within the United States as well as in foreign markets. These reasons include, but are not limited to the following:

(1) The incentives provided by the U.S. government and foreign governments to encourage U.S. investment of capital and know-how in foreign countries. These incentives include tariff considerations themselves, special tax considerations, and others specifically designed to encourage such business decisions.

(2) Competitive pressure from foreign manufacturers generally and manufacturers, both U.S. and foreign, who are utilizing off-shore assembly operations to improve their own competitive positions.

¹² *Ibid.*

¹³ Industry Profiles 1958-1967. U.S. Department of Commerce, Business and Defense Services Administration.

¹⁴ *Ibid.*

(3) Availability of a large labor pool at wage rates such as to enable U.S. manufacturers to secure product cost reductions, and thus free U.S. workers to perform more highly skilled operations.

(4) Use of multiple plants in particular operations, thus yielding greater production flexibility. Conditions which encourage use of U.S. manufactured components plus additional U.S. processing subsequent to importation of assembled articles lead to better product harmonization than is possible in the case where foreign-made parts or more extensive foreign operations are involved.

(5) Use of Item 807.00 concepts enabling manufacturers to exercise greater production and quality control than would alternative methods of production, particularly those which would involve an increase in the use of foreign components in the ultimate product.

(6) Use of foreign assembly operations, thus reducing the unit cost of production, which, when coupled with duty savings available as a result of Item 807.00, increases the U.S. manufacturers' competitive position and results in reduced costs to the consumer.

(7) Use of off-shore facilities as part of a production process, thus increasing sales in the host country, both directly from plant, and re-exports of fully assembled equipment from the United States.

Improvement of the competitive position of U.S. companies utilizing off-shore production facilities and Item 807.00 results in the enhancement of employment opportunities for U.S. workers, and facilitates the granting of wage and benefit increases consistent with their increased productivity.

Furthermore, by increasing the ability of U.S. manufacturers to compete in foreign markets and to compete against foreign imports in U.S. markets, and by counteracting the tendency, in many product lines, of complete substitution of foreign-manufactured assemblies for assembly processes currently carried out under Item 807.00, the program results in a positive contribution to the U.S. balance of payments.

Participation by U.S. firms in elevation of productive capabilities of developing nations contributes significantly to this nation's overall trade and foreign policy.

In summary, adoption of legislation such as H.R. 14188 and repeal of Item 807.00 would have a significant adverse impact upon U.S. industry as a whole and upon American workers, the business equipment industry in particular, the U.S. balance of payments position, and U.S. foreign trade policy generally.

ILLUSTRATIVE USES OF ITEM 807.00

U.S. business equipment manufacturers utilize Item 807.00 in connection with the assembly of a wide variety of products, most of which are subsequently made component parts of more sophisticated equipment by application of U.S. labor and technology. The host countries of such off-shore production facilities span the globe, and include such countries as Mexico, Korea, Taiwan, Canada, England, Italy, Brazil, and Hong Kong.

Among the products assembled abroad and thereafter imported under this Tariff Schedule are storage plane assemblies, coils, disc packs, logic card assemblies, digital computer card assemblies, memory stacks, cores, transformers, and other products.

The following are intended only to be illustrative of the types of U.S. components involved and the nature of foreign assembly processes applied thereto:

U.S. manufactured cores, frames and boards for storage plane assemblies are wired, soldered, assembled, inspected, and tested by foreign workers. Upon return to the U.S., the storage plane assembly becomes a component of a computer.

Cores, plane sub-assemblies, diode modules, connectors and eyelets are shipped abroad, where mats are soldered and wired, inspected, and tested, and are later used, upon return to the U.S., as parts of computer storage modules.

Logic cards are assembled abroad from U.S. manufactured boards, transistors, component connectors, wires and blocks for subsequent installation by U.S. workers in various types of electrical equipment.

U.S. manufactured printed circuit cards, transistors, resistors, capacitors, and other components are assembled into printed circuit boards which, following further processing in the United States, become part of end item computer peripheral equipment.

Memory stacks are assembled from ferrite cores, printed circuit boards, and wired and returned to the United States for further assembly and testing.

Wire, coil winding forms laminations, mounting brackets, lead wire, and insulating material is exported for assembly into transformers. These assemblies are subsequently further specially processed in the U.S. to consumer specifications.

THE EFFECT OF ITEM 807.00 OPERATIONS UPON COMPETITIVE CAPABILITY AND U.S. WAGE EARNERS

To Need To Remain Competitive and Its Impact Upon American Workers

The principal competitive benefit presently associated with products subject to off-shore assembly and Item 807.00 duty treatment is to enable the U.S. manufacturer of the completed unit of business equipment to compete in the world market against foreign manufacturers whose costs of production are almost universally lower, particularly with respect to those products which are labor intensive. Where U.S. components which have been subjected to off-shore assembly are eventually sold in the U.S. market (in themselves or as components of more complex end products), they are generally found to be competing against products of wholly foreign origin rather than those of U.S. manufacture.

Opponents of Item 807.00 and similar provisions claim, without substantiation, that the availability of encouragements to export for assembly and return deprives American workers of actual jobs and potential employment. The facts simply do not bear out these claims.

We have previously described the present and historic employment patterns characterizing the business equipment industry. Total employment of all types and employment levels for production workers are at record highs. Given the opportunity for flexibility in production such as that currently afforded by Item 807.00, the U.S. industry will continue to be competitive and provide an increasing opportunity for the American worker.

Business equipment manufacturers engaging in off-shore assembly operations are experiencing total U.S. employment increases almost without exception.

Turning specifically to those U.S. plants directly associated with Item 807.00 operations, as a result either of component production for export, production of assembled components identical to those imported, or further processing of imported assemblies, the general employment picture must be said to portend a favorable impact upon the U.S. worker, both in total employment and in income levels.

In nearly all instances with which we are familiar, total employment and employment of production workers in these plants showed increases in 1968 and 1969. Available data indicates that the composite impact of these operations is characterized by increased total production, higher levels of employment, generation of new plant openings, and a general elevation in the skill level utilization of U.S. workers. Company data evaluated during BEMA's recent in-depth studies of usage of this provision by business equipment manufacturers indicates that in those instances where commencement of foreign assembly operations has appeared to produce a reduction in U.S. employment, intra-company adjustments have been made in such a way as to maximize the skill utilization of the U.S. worker upon reassignment and to protect his earnings.

Analysis of available and relevant data leads unavoidably to the conclusion that overseas employment in business equipment assembly operations is inconsequential when considered in the context of the dynamics of the U.S. business equipment industry as a whole and U.S. based work associated with such assembly operations.

Other Points

Opponents of the use of off-shore assembly of U.S. components have not limited their attack to the general claim that such operations deprive U.S. labor of job opportunities. They offer a number of other equally unsupported contentions, three of which manufacturers of business equipment wish to treat specifically at this point.

It is urged that laws which facilitate use of foreign workers to assemble U.S. manufactured components make difficult efforts by U.S. workers to improve their own wages and working conditions. What has been heretofore said concerning the wage and salary levels of U.S. workers, production or otherwise, in the business equipment industry should sufficiently discredit such claims.

There is likewise the demand that U.S. industry employ disadvantaged American workers in the tasks currently performed by foreign workers abroad.

There is a certain superficial logic to such an approach. However, this argument assumes that use of foreign-based assembly operations reduces job opportunities in the United States, which is simply not the case. Furthermore, it ignores the substantial contributions made by business equipment manufacturers in the training and education of the disadvantaged.

Finally, there is the proposition that American industry pays "substandard wages" to foreign workers and thus perpetuates a condition of deprivation. We submit that the employees in each of the facilities engaged in off-shore assembly of U.S. business equipment components for export to the United States, including production workers in those facilities, are receiving wages and fringe benefits at least equal to the prevailing rate in the host country. These facilities serve to increase the standard of living in the host countries by providing jobs for those without employment, increased earnings opportunities for those who wish to better themselves, increased skills and productivity, and for the countries a means for improving their economic base.

It is interesting to note that those who accuse U.S. industry of contributing to the perpetuation of what they describe as "substandard" living conditions in developing nations urge adoption of restrictive trade policies which would prevent those very workers from taking advantage of the demands of international commerce to increase their living standards.

PROBABLE EFFECTS OF THE REPEAL OF ITEM 807.00

Because of the diversity of business equipment components assembled abroad under Item 807.00, the variety of end product uses, and the differences in competition position and size of companies involved, the consequences of repeal of Item 807.00 would vary from company to company. To claim that they would be uniform throughout the business equipment industry would be a generalization as inappropriate as many of those being made by opponents of the provision.

However, business equipment manufacturers are of the view that such a repeal would adversely affect their competitive positions and ultimately the well-being of U.S. workers, and believe that the relevant facts support such a conclusion.

It is apparent that a number of U.S. plants doing component manufacturing and further processing on Item 807.00 assembled articles will be forced to close their doors. In other instances, that result will be avoided only by a consolidation of facilities. Plant expansion will most assuredly be curtailed, and some actual plant relocations to foreign bases should be anticipated.

Repeal in some instances might result in a closing down of foreign assembly operations or the increasing use of automation. In other situations, the same assembly operations would be carried out but on foreign-made components rather than those produced in the United States.

Illustrative of the component source shifts which are likely to be precipitated should Item 807.00 be repealed is this report by one of our manufacturers who currently assembles recording heads for disc files from U.S. components in Mexico. Qualified Mexican-based sources are anxious to supply the flux additives, solder bars, ferrites, core memories, diodes, expoxy, lapping compound, antifoam magnet wire, and the 15 differing wires used in the recording head assembly.

Still other manufacturers would be forced to resort to purchase of components from outside foreign sources—or in some cases an even more extensive part of the final product—even to the extent of complete foreign manufacture followed by marketing under a U.S. brand name.

Item 807.00 is being used only in those cases where the U.S. manufacturer in question is able to reduce his unit costs thereby. Its elimination, of necessity, will force recourse to alternative means of avoiding the impact of cost increases. In cases where the manufacturer chooses to attempt domestic assembly of components previously assembled abroad, he will be forced to automate to minimize his increased costs. Failure to do so would result in lost sales to both foreign manufacturers and U.S. manufacturers taking more effective steps to offset the impact of repeal of these provisions in the Tariff Schedules. It should be apparent that the net impact of elimination of these provisions will be higher production costs or increased utilization of foreign components—the consequences of either alternative being unfavorable to U.S. laborers.

There persists the fallacious assumption by some of the most outspoken advocates of repeal of Item 807.00 that the consequences of its revocation will be an increase in jobs for U.S. assembly workers—man for man. Nothing could be further from the truth. In fact, only by the coincident adoption of restrictive import quotas on the entire range of end products now assembled from U.S. components would this be a noticeable consequence of repeal, and then only on a short term basis.

An objective evaluation of the comparative cost of production data in the business equipment industry leads unavoidably to the conclusion that the relative increases in cost of production of components wholly assembled in the United States would be prohibitive. Estimated increases of production costs approximating 100 per cent are not uncommon. Given these facts, the argument that repeal of Item 807.00 will benefit U.S. workers is patently untenable.

The impact of repeal of Item 807.00 would be felt, of course, in our export capabilities as well as in domestic sales. Any serious erosion of the ability of the business equipment industry to export sophisticated business equipment will have dramatic consequences in our balance of payments position. The disruptive impact upon our trade balance position will be compounded by virtue of reduced exports of American-made components. Further aggravation will result because of the increased substitution of foreign-made for American-made components, not to mention increases in U.S. purchases of foreign-made end products.

In its deliberations, the Committee on Ways and Means should note especially that the detrimental impact of a repeal of this provision will be focused directly upon U.S. industry. Competing foreign manufacturers who are themselves making use of off-shore production facilities will receive, by virtue of a repeal of Item 807.00, a relative advantage over the American manufacturer. The total value of that advantage will, at a minimum, equal the amount of duty increase. The impact would be considerably greater in those cases where repeal forced a cessation of use of the off-shore facilities themselves.

In this connection, the likelihood of retaliation by countries presently hosting assembly facilities must not be overlooked.

OTHER FACTORS RELEVANT TO THE ISSUE OF ITEM 807.00 REPEAL

In his request to the Tariff Commission for an investigation of the relevant economic factors affecting the use of Item 807.00, the President further directed the Commission should not limit itself to the enumerated "relevant economic factors" in making its analysis.

The Business Equipment Manufacturers Association fully concurs with the President's recognition that there are relevant and important considerations relating to possible repeal of Item 807.00 which must be evaluated. We are similarly assured that your Committee's interest in this provision extends to these considerations as well.

While it is our opinion that based upon its economic aspects alone Item 807.00 should be left intact, there are a number of other related factors which deserves careful consideration and reflection—each of which further militates against a change in the tariff treatment of assembled components of U.S. origin. Included among these factors are:

Reliance by Industry

In considering possible investment in manufacturing facilities abroad, American business must in each instance calculate the feasibility of such a venture. The duty treatment to be accorded products imported from these facilities is a factor, in some cases a critical factor, in making such a determination.

Reversal of the long-standing policy represented by Item 807.00 would adversely affect those who relied upon it to their detriment, and would be contrary to basic equity. Particularly would this be the case in the absence of a strong showing that other considerations of public policy dictated such a reversal.

Repeal Contrary to Policy of Tariff Schedules

The Tariff Laws and Tariff Schedules of the United States are designed to tax foreign goods for the encouragement of American industry and protection of American labor. Imposing a tariff upon components or products clearly of American origin—the direct consequence of Item 807.00 repeal—would be contrary to the basic concept and purposes of the Tariff Schedules themselves as reflected in numerous analogous provisions discussed previously in this statement.

Discrimination Against U.S. Components Assembled Abroad

Placing an additional tax upon the U.S. *component* value of a product assembled in an off-shore facility would constitute a discrimination against those components with respect to identical components assembled within the U.S. borders. There is no legitimate or justifiable policy basis for such discrimination.

Controvention of Overall U.S. Trade Policy

Repeal of Item 807.00 and discouragement of off-shore assembly operations thereunder would be inconsistent with overall U.S. trade policy, as enunciated or reflected in the President's foreign policy and trade messages, various recommendations of Presidentially constituted task forces on trade policy, and a wide variety of existing federal programs.

Rockefeller Report on the Americas

Such a repeal would be contrary to the conclusions and recommendations of "The Rockefeller Report on the Americas," the official report of a United States Presidential Mission for the Western Hemisphere prepared by Nelson A. Rockefeller in 1969 at the request of President Nixon.

Referring to the matter of trade policy, Mr. Rockefeller observed:

Trade policy is the central economic issue facing all Western Hemisphere nations. Freer access to markets in the United States and other industrial countries is essential to support accelerated economic progress. Provision of such opportunities poses problems of adjustment for the industrial nations in terms of jobs and investment. The challenge is to work together to develop a practical approach which will be in the best interests of all hemisphere nations.

Expanding export trade is the soundest and most important way the other American republics can finance the imports needed for broad development. (pp. 70-71)

The report continues with observations relating to the matter of private savings and investment as follows:

Accelerated economic growth will require increasing flows of private investment, local and foreign. Yet in all too many cases, private savings and investments are held back by . . . complex government controls and restrictions. (pp. 88-89)

Based upon such observations, the Rockefeller Task Force proposed as a national policy objective that "*the United States should provide maximum encouragement for private investment throughout the hemisphere.*"

The report also urged:

Improved mechanisms should be sought to bring together United States private investors and companies elsewhere in the hemisphere which are seeking United States partners. (p. 94)

Having completed his analysis of matters relating to economic and social development, Mr. Rockefeller treats separately the matter of the hemispheric division of labor. He states:

In essence, what we the people of the Western Hemisphere really need is a more efficient division of labor among us.

This principle of the division of labor underlies the progress of modern nations. Within national boundaries, the forces of competition in the market lead to specialization—a division of labor. Individuals and companies turn to what they can produce most effectively because that yields the greatest returns.

* * * * *

The same principles apply internationally. All participants gain from the freest possible exchange of exports and imports, since that promotes an international division of labor. Each nation concentrates on items it can produce with relatively greater efficiency and lowest costs. It trades these items for those which other nations can produce with selectively greater efficiency. Everyone gains in the process, just as they do in the division of labor within national boundaries.

* * * * *

It has been objected in some quarters of the United States that the adjustments involved in a move toward a greater international division of labor would prove too painful to be borne. There would be adjustments, and an effective program would be needed to help affected workers and businesses to make the transition to more productive pursuits. (pp. 101, 102, 103)

Manufacture of business equipment through the feeder plant concept, utilizing

foreign workers for the assembly of U.S. manufactured components, is a classic example of the effective use of a division of labor such as is envisaged in the Rockefeller Report.

The standard of living of the employees and the industrial base of the host country are increased by the assembly operations. Reduced costs of assembly increase demand both for the U.S. manufactured components and the end product. At the same time, more highly skilled U.S. laborers are freed to perform higher level functions, increasing their own productivity and living standards.

Peterson Report on International Development

On March 4, 1970, the Task Force on International Development, chaired by Mr. Rudolph A. Peterson, President, Bank of America, filed its final report with President Nixon. The conclusions of the Task Force, in outlining what it described as "U.S. Foreign Assistance in the 1970's" included the following:

1. The United States has a profound national interest in cooperating with developing countries in their efforts to improve conditions of life in their societies.

* * * * *

7. The United States should help make development a truly international effort. A new environment exists: other industrial countries are now doing more, international organizations can take on greater responsibilities, trade and private investment are more active elements in development, and, most important, the developing countries have gained experience and competence.

Referring to needed changes in international development, the Task Force emphasized:

In the future, the developing countries will have to export more manufactured goods. Their traditional exports of primary commodities have only limited growth possibilities, but the developing countries are becoming more competitive in manufactured goods. Whether they can capitalize on their new capabilities will depend on whether industrial countries open their markets to this competition . . .

Recognizing that U.S. policies relating to international development go beyond foreign assistance programs, the Task Force dealt in detail with the matter of trade and investment. With respect to private incentives and market forces, it noted:

In the most successful countries, the value of encouraging private initiative has been amply demonstrated. It has made possible more employment opportunities, an upgrading of labor and management skills, a rise in living standards, and wider participation in the benefits of development. Furthermore, a dynamic private sector has resulted in greater internal savings, more effective use of domestic and foreign investment resources, and rapid economic growth, in which export industries have played an important role.

1. *Trade.* Expansion of trade enhances the scope of the private sector and stimulates private initiative and investment. Developing countries cannot be expected to reach the point of financing their own development unless they are given the opportunity to earn the means for doing so through an increase in their exports. However, if a policy of promoting exports is prescribed for developing economies, *accepting imports is one of the responsibilities of industrial countries.* Providing better access for the products of developing countries offers both advantages and difficulties for industrial countries.

. . . cheaper imports and a larger volume of trade would add to the real incomes of all participating countries and help to contain inflationary pressures. Of course, they also might result in adjustment problems. But, difficult as such adjustment problems sometimes are, they are temporary. They occur continually in our dynamic society as an essential element of a competitive economy. They highlight the need for effective adjustment assistance measures as a foundation for constructive U.S. trade policies. The adjustment assistance provisions of the Trade Bill now before the Congress would help to meet this need.

Enlightened trade policies toward developing countries are an essential element in achieving international developing. The Task Force urges continued U.S. leadership in working for the reduction of tariffs and other obstacles to trade and in avoiding the imposition of new restrictions. (emphasis added)

Particularly relevant to a consideration of the role of trade policies such as those represented by Item 807.00 are the Task Force's observations on U.S. foreign private investment policy:

The policies of American firms operating abroad are an important determinant of the investment climate. In the past, the need to give more managerial responsibility to nationals of the host country and to establish good working conditions has been emphasized. *Equally important to international development as good relations with the host country are active efforts by subsidiaries of U.S. companies and other foreign firms to export goods from developing countries . . .* (emphasis added)

The relevance of the principal recommendations of this report, as well as those of the Rockefeller Report, to your Committee's deliberations is unmistakable. The implications of Item 807.00, both with respect to encouragement of U.S. private investment in underdeveloped countries, and the opening of this nation's doors to the industrial product of those countries, are in complete accord with these recommendations.

Specific Risk Investment Guaranty Program

Repeal of Item 807.00 would be contrary to U.S. Foreign Policy objectives such as those reflected in the Specific Risk Investment Guaranty Program.

The United States government, recognizing the vital role which U.S. business can play in assisting other countries toward self-sufficiency, has provided numerous incentives designed to encourage the investment of private capital and know-how in developing nations. Among such incentives are tariff considerations themselves, special tax considerations and other specific incentives such as the Specific Risk Investment Guaranty Program. The present program, which was authorized by the Congress under the Foreign Assistance Act of 1961, and administered by the Agency for International Development (AID), is designed to encourage the transfer to less developed countries of capital and techniques in furtherance of their economic development and to increase their productive capabilities. By insuring against political risks inherent in such ventures, this guaranty program not only encourages foreign investment, but also tends to equate foreign with domestic investment opportunities. That this program and the participation of U.S. industry under it are actual operating instruments of U.S. foreign policy is borne out by the fact that guaranty agreements have been signed between the United States and more than 75 countries. In addition, such guaranties are also available in a number of dependencies of developed nations, including the United Kingdom.

The Investment Guaranty Program is only representative of actions by the U.S. government to encourage foreign investment. Others include the Foreign Direct Investment Program of the Department of Commerce; Congressional exceptions with respect to investment in developing countries in the foreign investment controls adopted in 1968; and the continuing activities of the State Department and the Agency for International Development to assist business in overseas investment. The thrust of current efforts to repeal Items 806.30 and 807.00 of the Tariff Schedules, if accepted by the U.S. government, would be a reversal of an important aspect of our foreign policy with respect to many of the developing nations represented by such programs as the Specific Risk Investment Guaranty Program.

Because of the adverse effects of such a reversal upon U.S. businesses relying upon these provisions, such precipitous action could also seriously undermine future effort to involve cooperation of private business in other matters relating to investment policies, foreign or domestic.

Repeal of Item 807.00 Would Be Contrary to the Policies Enunciated in the President's Trade Message of November 18, 1969 and the President's Foreign Policy Message of February 18, 1970

On November 18, 1969, President Nixon sent to the Congress his first message on Foreign Trade. This message, and the legislative proposal transmitted therewith, are also the subject of your present hearings. In that message, the President indicated that it was his desire that U.S. trade policies be based upon a recognition of the international marketplace as it is, and that in his opinion a policy of freer trade was in the nation's best interests.

In speaking of changing policies in world trade, the President observed:

First, world economic interdependence has become a fact. Reductions in tariffs and in transportation costs have internationalized the world economy just as satellites and global television have internationalized the world communications

network. The growth of multinational corporations provides a dramatic example of this development.

* * * * *

The disappearance of the surplus has suggested to some that we should abandon our traditional approach toward freer trade. I reject this argument not only because I believe in the principle of freer trade, but also for a very simple and pragmatic reason: *any reduction in our imports produced by U.S. restrictions not accepted by our trading partners would invite foreign reactions against our own exports—all quite legally.* Reduced imports would thus be offset by reduced exports, and both sides would lose. In the longer term, such a policy of trade restriction would add to domestic inflation and jeopardize our competitiveness in world markets at the very time when tougher competition throughout the world requires us to improve our competitive capabilities in every way possible. (emphasis added)

Clearly, repeal of provisions such as Item 807.00 would represent a significant departure from the President's statement of policy. Because Item 807.00 makes a substantial contribution to U.S. trade and foreign policy objectives and *at the same time* improves the competitive position of U.S. firms, consideration of its repeal by adoption of H.R. 14188 would be doubly unsound.

The President also spoke directly to the matter of economic development of less developed nations. In this regard he stated:

Fourth, the less developed countries need improved access to the markets of the industrialized countries if their economic development is to proceed satisfactorily.

If the experience of the business equipment industry is representative, and we believe it to be so, the less developed countries to which the President referred in his Trade Message are principal locations for 807.00 facilities. To this extent, Item 807.00 itself represents a preference for "exports" from less developed nations. These plants do contribute in a substantial way to the economic development of the host countries—and at the same time provide a direct reciprocal benefit to U.S. manufacturers and their employees.

A turnaround in U.S. trade policy which threatened to produce or actually precipitated a withdrawal of such facilities would likewise adversely affect this country's relations with the foreign nations involved. Previous mention has been made of the likelihood of economic retaliation by host countries. As a practical matter, the U.S. would seek to substitute other forms of assistance. History should by now have convinced us that these alternatives are not only more expensive, but less effective instruments of national policy.

Consistent with the views earlier expressed in his Trade Message, the President provided still further elucidation of his trade policies in his foreign policy message delivered to Congress on February 18, 1970. The President stated:

Freer trade among all nations provides greater economic benefits for each nation. (Cong. Rec., 2/18/70, H938)

Mr. Nixon specifically referred to his trade policy objectives with respect to developing nations in these terms:

Finally, we proposed a liberal system of tariff preferences for exports of the developing countries.

This proposal is designed to meet one of the world's major economic and political problems—the struggle of the developing countries to achieve a satisfactory rate of economic development. Development can be promoted by aid, but aid cannot and should not be relied on to do the whole job. The low-income countries need increased export earnings to finance the imports they need for development. They need improved access for their products to the massive markets of the industrialized nations. Such export increases must come largely in manufactured goods, since the demand for most primary commodities—their traditional exports—grows relatively slowly. (Cong. Rec., 2/18/70, H939)

Referring to "international responsibility for development of less developed nations," the President said:

The international economic successes of the past have been mainly among the industrial nations. The successes of the future must occur at least equally in the economic relations between the industrial nations and the developing world.

* * * * *

And it is increasingly understood among developed and developing nations that economic development is an international responsibility. (Cong. Rec. 2/18/70, H939)

In this same context, the President clearly recognized the role of private investment in such a program:

Private investment must play a central role in the development process, to whatever extent desired by the developing countries themselves. I proposed, and Congress has authorized, an Overseas Private Investment Corporation to improve our efforts to make effective use of private capital. And we have given special attention to the developing countries in our relaxation of restraints on foreign investment by U.S. corporations.¹⁵

Trade policy must recognize the special needs of the developing countries. Trade is a crucial source of new resources for them. Thus, as already described, I have proposed and am urging a worldwide and comprehensive system of tariff preferences for the products of developing nations. (Cong. Rec., 2/18/70, H939)

In treating both overall trade policy and this nation's special obligations to developing nations, the President's message could not be more clear. It is equally clear that Item 807.00 is an effective and appropriate instrument for pursuit of those policies, and, in addition, it should be fully recognized that repeal of this provision would be internationally regarded as clear repudiation of such policies.

SUMMARY AND CONCLUSION

The Business Equipment Manufacturers Association, following a review of the use of Item 807.00 by the business equipment industry, finds this provision of the law, and assembly operations conducted thereunder, to be a positive factor in the existing vitality of this industry, including the well-being of its employees. We further believe that its repeal could have an adverse effect upon this industry as well as upon U.S. trade balances.

Finally, we consider Item 807.00 to be consistent with clearly enunciated U.S. trade policy, both in terms of specific programs and stated goals, and urge its retention as a part of the Tariff Schedules of the United States.

APPENDIX.—MEMBER COMPANY ROSTER

Acme Visible Records, Inc., Crozet, Virginia 22932
 Addmaster Corporation, 416 Junipero Serra Drive, San Gabriel, California 91776
 Addressograph Multigraph Corporation, 1200 Babbitt Road, Cleveland, Ohio 44117
 Addressograph Multigraph of Canada, Ltd., 42 Hollinger Road, Toronto 16, Ontario, Canada
 Adler Business Machines, Division of Litton Industries, 355 Lexington Avenue, New York, New York 10017
 R. C. Allen, Inc., 678 Front Street, N.W., Grand Rapids, Michigan 49501
 Allied Paper, Division of SCM Corporation, Kalamazoo, Michigan 49003
 Alma Desk Company, Box 271, High Point, North Carolina 27261
 American Automatic Typewriter Co., 130 Cedar Street, New York, New York 10006
 Ampex Corporation, Videofile Information Systems Division, 1020 Kifer Road, Sunnyvale, California 94086
 Art Metal, Division of Art Metal-Knoll Corporation, Jamestown, New York 14701
 Automated Business Systems, Division of Little Industries, 600 Washington Avenue, Carlstadt, New Jersey 07072
 BASF Systems, Inc., Crosby Drive, Bedford, Massachusetts 07130
 Bell & Howell Company, Business Equipment Group, 6800 McCormick Road, Chicago, Illinois 60645
 The Charles Bruning Company, Division of Addressograph Multigraph Corporation, 1800 West Central Road, Mount Prospect, Illinois 60056
 The Buckeye Ribbon & Carbon Company, Subsidiary of Addressograph Multigraph Corporation, 7209, St. Clair Avenue, Cleveland, Ohio 44103
 Burroughs Corporation, Detroit, Michigan 48232
 Burroughs Corporation, Business Forms & Supplies Group, Rochester, New York 14607
 Burroughs Corporation, Defense, Space and Special Systems Group, Paoli, Pennsylvania 19301
 Cheshire, Inc., Subsidiary of Xerox Corporation, 408 Washington Boulevard, Mundelein, Illinois 60060

¹⁵ The President's views with respect to U.S. investment abroad parallel those of President Eisenhower as expressed in a Special Message on Foreign Economic Policy which he delivered to Congress on January 10, 1955. In that message, he noted:

[T]he flow of capital abroad from our country must be stimulated and in such a manner that it results in investment largely by individuals and private enterprises rather than by government.

Presidents Kennedy and Johnson held similar views with respect to the role of private investment in the economic growth of developing nations.

- Clary Corporation, 408 Junipero Serra Drive, San Gabriel, California 91776
 Cole Steel Equipment Company, Division of Litton Industries, 640 Whiteford Road, York, Pennsylvania 17405
 Columbia Ribbon & Carbon Manufacturing Co., Inc., Glen Cove, New York 15542
 Combined Paper Mills, Inc., Subsidiary of the National Cash Register Company, Combined Locks, Wisconsin 54113
 Control Data Corporation, 8100-34th Avenue South, Minneapolis, Minnesota 55440
 Corry Jamestown Corporation, Subsidiary of the Singer Co., Corry, Pennsylvania 16407
 Cosco Business Furniture, Inc., Gallatin, Tennessee 37066
 Data Products Corporation, 6219 DeSoto Avenue, Woodland Hills, California 91364
 Core Memories, Inc., 2525 Charleston Road, Mountain View, California 94040
 Stelma Telecommunications Division, 17 Amelia Place, Stamford, Connecticut 06904
 Card Equipment Division, 8455 E. Prentice Avenue, Englewood, California 80110
 Data Devices, Inc., 18666 Topham Street, Tarzana, California 91356
 Dennison Manufacturing Company, 300 Howard Street, Framingham, Massachusetts 01701
 A. B. Dick Company, 5700 West Touhy Avenue, Chicago, Illinois 60648
 Dictaphone Corporation, Corporate Headquarters, Rye, New York 10580
 Digitronics Corporation, 1 Albertson Avenue, Albertson, New York 11507
 Domore Office Furniture, Inc., 2400 Sterling Avenue, P. O. Box 1289, Elkhart, Indiana 46514
 Eastman Kodak Company, Business Systems Market Division, 343 State Street, Rochester, New York 14650
 Thomas A. Edison Industries, McGraw-Edison Company, Voicewriter Division, 51 Lakeside Avenue, West Orange, New Jersey 07051
 Electronic Communications Incorporated, Subsidiary of the National Cash Register Company, 1501-72nd Street, North, St. Petersburg, Florida 33733
 Electronic Image Systems Corporation, Subsidiary of Addressograph Multigraph Corporation, Box 68, MIT Branch Post Office, Cambridge, Massachusetts 02139
 Farrington Manufacturing Company, Electronics Drive, Springfield, Virginia 22151
 Farrington Data Processing Ltd., New Lane, Havant, Hampshire, England
 Ford Industries, Inc., 5001 SE Johnson Creek Blvd., Portland, Oregon 97206
 Friden, Inc., Division of Singer Co., 2350 Washington Avenue, San Leandro, California 94577
 GAF Corporation, 140 West 51st Street, New York, New York 10020
 General Binding Corporation, 1101 Skokie Boulevard, Northbrook, Illinois 60062
 General Electric Company, Information Systems Group, 570 Lexington Avenue, New York, New York 10022
 The General Fireproofing Company, Youngstown, Ohio 44501
 Gray Dictation Systems, Division of the Gray Manufacturing Co., Randolph Industrial Park, Dover, New Jersey 07801
 Gray Dictation Systems, 16 East 40th Street, New York, New York 10016
 The Gunlocke Company, Inc., Subsidiary of the Sperry & Hutchison Co., Wayland, New York
 Harter Corporation, Box 400, Sturgis, Michigan 49091
 Harter Metal Furniture Ltd., Box 636, Guelph, Ontario, Canada
 Honeywell, Inc., Electronic Data Processing Division, 60 Walnut Street, Wellesley Hills, Massachusetts, 02181
 Intercontinental Systems, Inc., Dura Division, 2585 East Bayshore, Palo Alto, California 94303
 International Business Machines Corporation, Corporate Headquarters, Armonk, New York 10504
 InterRoyal Corporation, 1 Park Avenue, New York, New York 10016
 ITEK Business Products, Division of ITEK Corporation, P.O. Box 1970, 1001 Jefferson Road, Rochester, New York 14603
 ITEK Business Products Limited, 41 Brydon Drive, Rexdale, Ontario, Canada
 Jens Risom Design, Inc., 444 Madison Avenue, New York, New York 10022
 JOFCO, 13th & Vine Streets, Jasper, Indiana 47546
 Kimball Systems, Division of Litton Industries, 151 Courtlandt Street, Belleville, New Jersey 07109
 Kleinschmidt Telecommunications, Division of SCM Corporation, Lake Cook Road, Deerfield, Illinois 60015

- Knoll International, Division of Art Metal-Knoll Corporation, 320 Park Avenue, New York, New York 10022
- Leehigh-Leopole Furniture Company, Division of Litton Industries, 415 Madison Avenue, New York, New York 10017
- Litton Industries, Inc., Business Systems & Equipment, 360 North Crescent Drive, Beverly Hills, California 90213
- Litton Industries, Inc., Office Communication Equipment Group, 850 Third Avenue, New York, New York 10022
- Marble/Imperial Furniture Company, A Division of Dictaphone Corporation, 89 Willis Street, Bedford, Ohio 44146
- Marchant Electronics, SCM Corporation, 6701 San Pablo Avenue, Oakland, California 94608
- Marchant Operations, SCM Corporation, Orangeburg, South Carolina 29115
- Micro Switch, Division of Honeywell, Inc., Freeport, Illinois 61032
- Microstatics Operations, SCM Corporation, P.O. Box 9, Libertyville, Illinois 60048
- Herman Miller, Inc. 140 McKinley Street, Zeeland, Michigan 49464
- Minnesota Mining & Mfg. Co., Duplicating Products Division/Microfilm Products Division, 3M Center, St. Paul, Minnesota 55101
- Monroe, Division of Litton Industries, 550 Central Avenue, Orange, New Jersey 07051
- Moore Business Forms, Inc., 900 Buffalo Avenue, Niagara Falls, New York 14302
- Mosler, Hamilton, Ohio 45012
- Myrtle Desk Company, P.O. Box 1750, High Point, North Carolina 27261
- The National Cash Register Company, Dayton, Ohio 45409
- Olivetti Underwood Corporation, One Park Avenue, New York, New York 10016
- Pitney-Bowes, Inc., Stamford, Connecticut 06904
- RCA, Corporate Headquarters, 30 Rockefeller Plaza, New York, New York 10020
- Remington Office Equipment, Division of Sperry Rand Corporation, 1290 Avenue of the Americas, New York, New York 10019
- Remington Rand Office Machines, Division of Sperry Rand Corporation, Executive Offices and Engineering Center, 333 Wilson Avenue, South Norwalk, Connecticut 06856
- Royal Typewriter Company, Division of Litton Industries, 150 New Park Avenue, Hartford, Connecticut 06106
- Roytype Supplies Division, Division of Litton Industries, 1031 New Britain Avenue, West Hartford, Connecticut 06110
- Saxon Business Products, Inc., 450 Seventh Avenue, New York, New York 10001
- SCM Corporation, 299 Park Avenue, New York, New York 10017
- Sperry Rand Corporation, 1290 Avenue of the Americas, New York, New York 10019
- The Standard Register Company, P.O. Box 1167, Dayton, Ohio 45401
- Steelcase, Incorporated, Grand Rapids, Michigan 49501
- Stow/Davis Furniture Company, 25 Summer Avenue, N.W., Grand Rapids, Michigan 49502
- Stromberg Datagraphix, Inc., P.O. Box 2449, San Diego, California 92112
- Sweda International-North America, Division of Litton Industries, 550 Central Avenue, Orange, New Jersey 07051
- Sylvania Information Systems, Division of Sylvania Electric Products, Inc., 2 Corporate Park Drive, White Plains, New York 10604
- Tally Corporation, 8301 South 180th Street, Kent, Washington 98031
- UARCO Incorporated, West County Line Road, Barrington, Illinois 60010
- UNIVAC, Division of Sperry Rand Corporation, P.O. Box 8100, Philadelphia, Pennsylvania 19101
- Varityper Corporation, Subsidiary of Addressograph Multigraph Corporation, 11 Mt. Pleasant Avenue, Hanover, New Jersey 07936
- Viatron Computer Systems Corporation, Route 62, Bedford, Massachusetts 01730
- Victor Comptometer Corporation, 3900 N. Rockwell Street, Chicago, Illinois 60618
- VISRecord, Division of Barry Wright Corporation, Copiague Island, New York
- Vista-Costa Mesa Furniture Company, Division of Dictaphone Corporation, Anaheim, California 92803
- Wang Laboratories, Inc., 836 North Street, Tewksbury, Massachusetts 01606
- Wright Line, Division of Barry Wright Corporation, 160 Gold Star Boulevard, Worcester, Massachusetts 01606
- Xerox Corporation, Stamford, Connecticut 06904

**STATEMENTS ON BEHALF OF
THE**

U.S./MEXICO BORDER CITIES ASSOCIATION

U.S. - MEXICO BORDER CITIES ASSOCIATION

U. S. G. A. EL PASO TEXAS 1994 5331421 AREA CODE 917

May 25, 1970

Committee on Ways and Means
U. S. House of Representatives
Washington, D. C. 20515

Gentlemen:

The statements and exhibits of the U. S./Mexico Border Cities Association that are contained in this document are submitted to provide background for the House Committee on Ways and Means in their deliberations on the U. S. Foreign Trade Act HR 14870 and the several bills that have been introduced to amend the basic proposal. Our statements are specifically in reference to HR 14188 that proposes to repeal the right of reentry of United States components subjected to foreign processing under U. S. Tariff Schedules Items 806.30 and 807.00 and similar legislative proposals that would adversely affect trade and commerce in the U. S./Mexico Border Zone.

The U. S./Mexico Border Cities Association (B. C. A.) was voluntarily organized in 1965 by Chamber of Commerce and City Government interests representing border cities in the United States and Mexico and the "Association" has been continuously active since that date. The B. C. A. is an informal, unincorporated organization because the international character of its membership and activities make it impractical to incorporate in the United States or Mexico. B. C. A. administrative headquarters are located at the offices of the El Paso, Texas, Chamber of Commerce. Organization finances are provided through annual dues paid by the Association's 400 individual and 20 city, chamber of commerce, and regional members. The current officers of the Association are:

President
U. S. Vice Pres.
Mexico Vice Pres.
Sec. Treas.
Past President
Directors:

Arthur M. Doan
Ed Phelps
Ignacio Garcia Batista
Donald W. Holmberg
Federico de la Vega
Manuel Enriquez Savignac
Rudy Miles
Don Shubert
J. W. Higgins
Robert M. Bracker
Jesus Navarro Elizondo
Bryan Payne
Earl Roberts
Frank Birkhead, Jr.
Gustavo Teran
Charles Miller
Mrs. A. J. Ochsher


Nogales, Arizona
Laredo, Texas
Mexicali, Baja Calif.
El Paso, Texas
Juarez, Chih.
Juarez, Chih.
El Paso, Texas
San Diego, Calif.
San Diego, Calif.
Nogales, Arizona
Tijuana, Baja Calif.
Douglas, Arizona
Calxico, Calif.
McAllen, Texas
Agua Prieta, Sonora
Nuevo Laredo, Tamaulipas
Yuma, Arizona



A summary of the testimony submitted within this document follows:

1. The United States/Mexican border is an economically depressed area and the poverty generated by border conditions has a depressing effect on a vast area of the Southwestern United States.
2. Border poverty and economic depression result primarily from social and economic underdevelopment in Mexico; therefore, economic improvement must be accomplished on both sides of the U. S./Mexico border to obtain an effective solution for the problem.
3. Mexico has recognized the border zone as an area requiring special consideration and has instituted its Program for Northern Border Industrial Development as a major step toward a solution for the problems of the border region.
4. The Border Industrial Program in the United States and Mexico has proven its ability to improve the border economy and is providing many jobs for workers in United States and Mexican border cities.
5. Tariff Items 806.30 and 807.00 are an essential part of the Border Industrial Program and vital to full United States participation in the economic benefits that can result from industrialization of the U. S./Mexico border.
6. Attacks on the Border Industrial Program by organized labor in the United States result primarily from: the visibility and proximity of manufacturing developments in the border zone of Mexico, and the vulnerability of the border to attack because of economic unrest and the troubled nature of the border zone. Such attacks are based on emotion rather than substantive evidence of loss of jobs or other opportunity for the working people of the United States.
7. The subject tariffs as used in border manufacturing operations encourage maximum use of U. S. components and, therefore, the development or retention of U. S. jobs. In addition, the Mexican value added to U. S. components assembled in Mexico is relatively small (25 to 30% of the reimported component value) and a major portion of the money paid for the assembly of U. S. components in Mexico returns to the United States as payments for services and purchases of U. S. consumer goods and other products.
8. Items 806.30 and 807.00 of the U. S. Tariff Schedules, as used in the U. S./Mexico Border Industrial Program, aid U. S. manufacturers to compete with foreign products in domestic and world markets. Using the present reimport advantage and U. S. technology, United States manufacturing firms can produce finished products, with 80 to 90% domestic United States value, that are competitively priced in the U. S. and world market and thereby reduce the incentive for U. S. manufacturers to locate overseas, aid the competitive position of U. S. products, and create a more favorable U. S. balance of trade position.

Sincerely,


Donald W. Holmberg
Secretary

SUMMARY STATEMENT OF ARTHUR M. DOAN,
PRESIDENT, U.S./MEXICO BORDER CITIES ASSOCIATION

U.S./MEXICO BORDER CITIES ASSOCIATION - The U.S./Mexico Border Cities Association is an informal, unincorporated organization that includes individual members and memberships of the various U.S. and Mexican border cities. Our border city members generally represent the city government and Chambers of Commerce of the respective cities. At present, the "Association" has over 400 individual members. This testimony is on behalf of the civic interest of the border cities in the U.S. and Mexico from the Gulf of Mexico to the Pacific Ocean.

BORDER SOCIAL AND ECONOMIC PATTERNS - In the Border Industrialization Program, the situation in the Mexican States of Sonora and Baja California differs from that in the State of Chihuahua eastward adjoining the U.S. States of New Mexico and Texas. In the Arizona-California area, industrial operations in the border zone of Mexico are conducted in free trade zones so that the importation of machinery and materials into the Mexican border zone is less complicated. East of Arizona, machinery, components, and raw materials used in the Border Industrial Program are imported into and exported from Mexico by permit, and under bond, which slows down the import-export process and considerably complicates the handling of materials as compared to operations in the Mexican States of Sonora and Baja California.

Probably the most important ingredient in the industrialization and border development program currently going on in northern Mexico, is the fact that it is not merely going on in that area. When we think in terms of "border" we often think in terms of a barbed wire fence, gates with uniformed guards at certain locations, and a supposed very distinct delineation of peoples, cultures and traditions existing on each side of this "border."

The people and life-style found in the border area represent an effective melding of what is rapidly becoming a region in itself, rather than a geographical line laid out by surveyors in 1853, and subject to occasional adjustments since that time.

In the many sister communities that exist from the Matamoras-Brownsville area on the Gulf of Mexico, to the Tijuana-San Diego area on the Pacific coast, we find a joint sense of identification, of language, of customs, and civic awareness.

This region has, for a variety of reasons, been economically depressed for many years. Its primary dependence upon agriculture with a resulting low wage base, and relative absence of manufacturing and productive jobs, plus a disproportionately high percentage of employment in the highly volatile agriculture and livestock fields, has resulted in a low wage scale, not only in the Mexican portion, but also in the U.S. portion of this region. For instance, women domestic employees and men looking for work in Nogales, Arizona, have been drastically reduced since the Border Development Program began to develop in 1967.

Let us examine further, briefly, the people-to-people relationship we have. Let us understand that when the fire alarm rings in Douglas and/or

Agua Prieta, or in Nogales, that the departments of the sister cities jointly answer the calls; that for example, Nogales, Arizona and Nogales, Sonora share a joint sewerage system; and all along the border we share languages, cultural traditions, holidays, sporting events, civic facilities -- all of the joys and the problems faced by neighbors separated only by a fence.

BORDER INDUSTRIALIZATION EFFECT IN ARIZONA - The simple fact of the matter is that the Border Development Program of the Mexican Government has provided more direct jobs in production activity in both Mexico and the U.S. For example, as of May 1st in Sonora, the State adjacent to Arizona, 3,250 new productive jobs have been created directly as a result of this program since it first came into existence in 1967. We find further that there have been some 3,500 new jobs in direct employment created in Arizona during that same period of time. These are figures relating to people; to their prosperity, to their ability to earn and acquire some of the better things in life. In short, these people are approaching their respective national averages of income at a much more rapid rate than prior to this program.

In addition, to the new production jobs, there are the new jobs indirectly created. These people are employed in retail stores, in service stations, in restaurants, in financial institutions, and a myriad of other fields of commercial activity. In Nogales, Arizona, retail sales show the following numbers. For the fiscal year ending June 30, 1967, with an area population of 14,000, retail sales were 32.5 million dollars. For a like period in 1968, with a population of 14,100, total sales increased to 33.3 million dollars. In 1969 with a population of 14,400, retail sales hit 33.6 million dollars. And the Nogales City Treasurer reports that he estimates retail sales for fiscal 1970 to exceed 38 million dollars.

That these retail sales do not originate solely from citizens on the Arizona side can be further demonstrated by the fact that, while there were 62 people per 1,000 population employed in retail sales in the State of Arizona there were almost twice that, or 121 people per 1,000 so employed in the Nogales, Arizona area. Retail sales per person during the same period for the State of Arizona were \$1,676; while in the Nogales, Arizona area there were \$2,320.

Again, in looking at another important set of numbers, bank deposits per 1,000 people in Arizona were 1.5 million dollars; while in the Nogales, Arizona area, that figure was in excess of 2.1 million dollars.

These are, of course, merely numbers. We only have to ask the 1,000 newly employed citizens of Agua Prieta, Sonora across from Douglas, or the 2,000 newly employed citizens in Nogales, Sonora doing work of which they are proud, for wages on which they can exist with relative comfort, how they feel about the opportunity to be employed instead of unemployed; to be in jobs with upward mobility instead of stagnating in occupational areas with no possibility of growth, to get a reaction of the human impact of the Border Development Program and an appreciation of the importance of the dignity of work it engenders.

We only have to ask the merchants and their employees in cities on both sides of the border how they feel about increased sales and the increased wages they are receiving in their businesses as the results of this increased purchasing power on both sides of the line.

We would be happy to give you our opinions as to the desirable effect of increased tax collections on the municipal posture and services that our cities are able to offer their citizens and visitors. This situation exists in most of the U.S. border cities and the border cities in Mexico.

FACTS ABOUT THE MEXICAN BORDER INDUSTRIALIZATION PROGRAM AND RELATIONS WITH MEXICO - The statistical experts can come up with all the numbers regarding the important international aspects of the significance of tariff schedule provisions 806.30 and 807.00. It is important, however, to add that studies show that in 1968, U.S. imports on a worldwide basis imported under the terms of 807.00 total \$1 billion 432 million. In relation to the above, the imports from Mexico under 807.00 totaled \$73.5 million. On a worldwide basis, U.S. components had a value of \$226 million, with a value added of \$1,206 million. In the case of Mexico, the value of U.S. components was \$50 million, with a value added of \$24 million.

Thus, a far greater percentage of goods imported from Mexico consist of goods of U.S. origin. Moreover, the total figure for Mexico is extremely small in relation to the balance of U.S. imports, which indicates that Mexico is indeed, on a percentage basis, a far greater user of goods of U.S. origin, thus creating a much larger percentage share of jobs for U.S. citizens, and the fifth largest market for U.S. exports, creating a favorable U.S. balance of trade posture.

In the event that these two provisions of the U.S. Tariff Act are repealed, an event we are obviously testifying in opposition to, it would then certainly be our recommendation that this committee, or whatever body may be deemed appropriate, certainly consider inclusion of our neighbors to the south in Mexico, in a "most favored nation" category as we have seen fit to do with our good neighbors to the north in Canada.

We have mentioned some numbers, but do not come to speak in terms of numbers. Rather we speak of this special region of the country which has chronically been in the lower spectrum of dollar rewards, and is now finding via the Border Development Program of the Mexican Government and the existing attractive U.S. tariff regulations, an opportunity to help people.

Certainly when we look at some of the things that have happened as a result of U.S. governmental action in recent years concerning our Mexican border neighbors, such as termination of the bracero program, reduction in the amount of consumer goods that can be brought into this country duty free, the great "tomato" battle, and the extremely disastrous effects on many long-standing personal friendships that resulted from perhaps an overzealous application of the admittedly desirable good effects hoped for by the implementation of "Operation Intercept", we should do some soul searching.

Those of us along the border have friendships that extend beyond the barbed wire in both directions. We have a deep, abiding, and well founded feeling that, in fairness, this attempt by our Mexican neighbors to improve their border economy and the resulting good for the peoples of both countries in the border region, are important human considerations to which this Committee will want to give close attention.

SUMMARY STATEMENT OF PETER DE WETTER,
MAYOR OF THE CITY OF EL PASO, TEXAS

ADVANTAGES OF AND RESULTS FROM THE BORDER INDUSTRIALIZATION PROGRAM - The Border Industrialization Program promulgated by the Republic of Mexico and promoted by civic development organizations in the U.S. border cities and states affords an extraordinary opportunity to improve the economic well-being of the citizens of the city I represent. The same advantage can accrue to every city on the U.S. side of the U.S./Mexican border. Since the Border Industrial Program was announced in the Spring of 1965, 21 manufacturing operations have been established in El Paso's sister city of Cd. Juarez, Chihuahua. These companies now employ 2,606 persons. The program has directly resulted in establishing 20 manufacturing operations in El Paso employing 922 persons that will employ 1,527 persons by midsummer of this year. A list of these manufacturers is submitted as "Exhibit A", page 24. University of Texas at El Paso economic research results indicate a multiplier factor of 2.5 can be applied to the average new job in El Paso; therefore, these El Paso manufacturing operations will support the employment of an additional 2,290 El Pasoans in transportation, warehousing, and other service functions. Since the border program began, the average effective buying income of families in El Paso has risen from \$6,683 in 1964 to \$8,132 in 1968 according to Sales Management Survey of Buying Power. In El Paso, the Border Industrial Program has not resulted in manufacturing relocations from El Paso to Juarez. We have had a few instances where manufacturers newly located in our area employed persons, set up temporary operations in El Paso, and later reduced El Paso operations when they completed facilities for permanent operations in Juarez. In other instances, newly located manufacturing operations have set up what they thought would be temporary facilities in El Paso, and retained them by deferring development in Juarez or expanding the operation they originally contemplated. The names of some of these firms include Boss Manufacturing, Acapulco Fashions, Software Inc., Taylor Publishing Co., Chemical Producers, and Baldwin Piano Co. El Paso's economic situation is representative of most border cities. San Diego, for example, has more natural advantages, while many of the smaller border cities have perhaps less natural advantage than El Paso.

THE BORDER ECONOMY - Our border zone is and always has been a serious and extensive poverty pocket within the U.S. With a lack of natural resources and nearby markets, the border has not been attractive to most industry, and industry has not previously developed in the border zone to any great extent. Poverty on the U.S. side of the border is often not statistically apparent because it is hidden by adjacent economic segments; for example, the extensive military, governmental, and port facilities of San Diego and extensive military facilities at El Paso. When border poverty is uncovered in such locations as Laredo and McAllen, Texas, we stare at the ugly picture of 10 to 15% unemployment and average annual per capita incomes of \$1,000 or a little more a year. In El Paso, when we statistically identify the Mexican-American by surname, using the 1960 U.S. Census of Population, we find unemployment rates of 10% as compared to the average El Paso figure of 3 to 4%. We also find our Mexican-American citizens with per capita incomes 25% below the El Paso average, educational levels of 6.8 years as compared to the El Paso average of 11.1 years, and other characteristics of a poverty stricken population. To detail these points, see "Exhibit B", page 25. The poverty problem of U.S. cities on the

Mexican border is further complicated by tremendous pressures for immigration to the United States from Mexico. Economic opportunity must be provided on both sides of the border to ease the immigration situation and improve the lot of United States border city residents. This economic opportunity can best be provided through Border Industrialization.

THE ISSUES INVOLVED IN THE BORDER INDUSTRIAL PROGRAM - To date, the industrial development that has taken place has occurred in spite of opposition from organized labor. Threats to void the right of reentry of U.S. materials under 806.30 and 807.00 have effectively deterred major U.S. firms who are otherwise interested in a border plant location. In many instances, we are told by our Industrial Development Specialists, the interest of manufacturers is simply transferred from the Mexican border to overseas locations such as Japan, Hong Kong, Taiwan, and Spain. The Republic of Mexico is to be commended for recognizing its side of the U.S./Mexico border as a special area and developing special projects under its program for Northern Border Development (PRONAF). Mexico's positive programs have done much to help the people on both sides of the border and will do much more in the future with a little help or at least with the passive acceptance and support of the programs Mexico has initiated by the U.S. The real issue in these hearings is whether we are to permit the use of U.S. components in border zone manufacturing and thereby encourage more jobs and industry in the U.S. Goods that may be processed in the border zone could as an alternative be manufactured in other world industrial centers with 100% materials and components foreign to the U.S. If the right of U.S. materials to return to the U.S. without payment of duty is eliminated, then all we have done even on the U.S./Mexico border is reduce the competitive advantage of U.S. components and materials.

OPPORTUNITIES FOR THE UNITED STATES BY INDUSTRIALIZING THE BORDER - The U.S./Mexico border extends for 2,000 miles with an estimated 2.5 million people in the U.S. side, and over 1.5 million on the Mexico side. Nearly one million of these people reside in the area with which I am directly concerned; El Paso and Juarez. The Border Industrial Development Program that is fundamentally affected by Tariff Items 806.30 and 807.00, has the potential to change an area of poverty and high unemployment to a major light industry center where people are fully employed and earning livable incomes. Industrialization of the U.S./Mexico border will not result in the loss of jobs that would otherwise remain in the U.S. In addition, border industry will encourage maximum use of U.S. contributions to the value of manufactured products as compared to similar operations overseas. In support of this statement, see "Exhibit C", page 26 1966 - 1968, Summary Report of U.S. Imports Under 806.30 and 807.00.

SUMMARY - If the U.S. should take action against the border industry program, most of the jobs the border area could otherwise gain will go overseas; the border area and its people will lose probably the greatest opportunity for improvement and development that they have ever had; and U.S. relationships

with the government and people of Mexico will seriously deteriorate. On behalf of the more than 400,000 people of the El Paso metropolitan area, I strongly urge that this Committee recommend to the Congress that no changes be made in U.S. Tariff Schedules Items 806.30 and 807.00.

DETAILS OF THE BORDER ECONOMY AND INDUSTRIALIZATION PROGRAMPREPARED BY THE EL PASO, TEXAS CHAMBER OF COMMERCE

PREFACE - The El Paso Chamber of Commerce submits this testimony to support the position that U.S. Tariff Schedules 806.30 and 807.00 should not be revised to reduce or eliminate the right of reentry of U.S. products processed abroad duty free except for value added. In fact, it would be of advantage to the U.S. border zone and to the entire U.S. if some present restrictions were relaxed to further encourage the use of U.S. manufactured components in the U.S./Mexico border zone.

Industrial operations in the El Paso/Juarez area and along the entire U.S./Mexican border dependent upon 806.30 and 807.00 are only a small part of the manufacturing activities that are of concern to this Committee. However, it appears that the Industrialization Program on the U.S./Mexican border is a major factor, if not the factor that has brought about these hearings.

It is the firm conclusion of the El Paso Chamber of Commerce that the Border Industrialization Program, operating under Tariff Items 806.30 and 807.00, is not detrimental to the economic well-being of the people of the border area, but is the greatest opportunity for economic improvement that has occurred throughout the more than 300 year history of our community.

DESCRIPTION OF THE BORDER INDUSTRIAL PROGRAM - At this point we will briefly describe the Border Industrial Development Program. The program, sometimes referred to as the Twin-Plant Program, is a combination of policies pursued on both sides of the border to promote industrial development. It should be distinguished from the Mexican Program for Northern Frontier Development (Programa Nacional Fronterizo - ProNaf) that is a subsidized program of the Government of Mexico to incorporate their Northern Frontier into the Mexican economy. The Border Industrial Development refers to the policy under which Mexico permits wholly owned subsidiaries of foreign enterprises to be incorporated in Mexico. The privileges extended are leasing real estate; work permits for key personnel; and duty free import of machinery, supplies, and raw material as long as all products are exported from Mexico. This authority is permitted only in a zone that extends approximately eight miles south of the U.S./Mexican border. The product of the Mexican Border Industrialization Program plants is usually reimported to the U.S. under Items 806.30 and 807.00 of the Tariff Schedules of the U.S. Under the most ideal conditions, U.S. raw materials are prepared for assembly in a plant in the U.S.; are taken to a Mexican plant in the border zone for assembly and the application of labor intensive operations permissible under Items 806.30 and 807.00; and returned to a U.S. plant for finishing, packaging, and shipment to ultimate destination.

SUMMARY OF CONCLUSIONS - The El Paso Chamber of Commerce submits the following conclusions:

- (1) Tariff Items 806.30 and 807.00 have and will be a major factor in the growth of the economic well-being of U.S. border residents.

- (2) Tariff Items 806.30 and 807.00 are more advantageous to the U.S. as used in the U.S./Mexico border zone than when used in overseas manufacturing and assembly points.
- (3) The Border Industrialization Program provides competition for manufacturing operations that might otherwise be placed overseas in Japan, Hong Kong, Taiwan, Spain, the African nations, and other overseas areas.
- (4) The location of large numbers of diversified manufacturing operations and the relatively high wages paid in these operations within the border zone of the Republic of Mexico is beneficial for the U.S. in relieving conditions of poverty and unemployment in that zone, thereby reducing the pressure for legal and illegal immigration in the U.S.
- (5) In addition to the high percentage of the value of products produced under the Mexican border Industrial Development Program that is U.S. component, much of the money paid for wages and services in manufacturing operations in the Border Zone of the Republic of Mexico returns to the U.S. in the form of purchases of goods and services.

IN SUPPORT OF OUR FIRST CONCLUSION THAT "TARIFF ITEMS 806.30 AND 807.00 HAVE AND WILL BE A MAJOR FACTOR IN THE GROWTH OF THE ECONOMIC WELL-BEING OF U.S. BORDER RESIDENTS", El Paso Texas has an excellent record of economic and social development and is one of eleven cities in the U.S. awarded the All-America City designation by the National Municipal League in 1970 for the excellence of citizen work to improve the social and living conditions of its less privileged citizens. Much of El Paso's relative prosperity and well-being has been brought about by the location of large military facilities in and adjacent to the city. If it were not for this fortunate circumstance, El Paso might be one of the most poverty struck cities in the U.S. Even with a relatively prosperous community, half of our Mexican-American citizens lack education, have poverty level family incomes, and high unemployment. In support of this statement, see "Exhibit B", page 25.

Subsequent to 1950 when El Paso had 9,000 manufacturing jobs for an area work force of nearly 75,000 people, manufacturing industry developed dominated by clothing manufacturing operations. This industrial community grew and expanded and by 1965 El Paso manufacturing employment had increased to more than 16,000 jobs for a civilian work force of 102,000 people. (See "Exhibit D", page 27.)

However, the majority of the jobs detailed in this exhibit paid relatively low wages and provided little opportunity for advancement. Between 1965 and 1969 El Paso manufacturing employment increased to nearly 25,000 jobs for a civilian work force of 120,000 people with diversification in manufacturing operations to include electronics, computer software, and other activities that provide a potential for higher wages and an ever increasing number of people employed. (See "Exhibit A", page 24.) These developments result directly from the increased attractiveness of the El Paso area to industry and the opportunities available under the Mexican Program for Northern border Development.

Controversy, surrounding the continued use of 806.30 and 807.00, has had an adverse affect on economic development in El Paso. For example, Hatch International of El Paso negotiations for sub-contracts with major electronics firms have been suspended. One contract would have resulted in adding 24 to 30 people in the El Paso plant and the other would have added from 200 to 300 people in their El Paso plant. Both major firms seeking sub-contracts backed off from a commitment to purchase products from the El Paso firm awaiting results of current debates about repeal of 806.30 and 807.00. Meanwhile, these same two firms are continuing to contract for such production in Japan.

Charges have been repeatedly leveled by spokesmen of the AFL-CIO that the Border Industrialization Program has used 806.30 and 807.00 in a manner not originally intended and that this has resulted in the loss of jobs and economic opportunity to the U.S. The record completely denies this allegation.

IN SUPPORT OF OUR SECOND CONCLUSION THAT "TARIFF ITEMS 806.30 AND 807.00 ARE MORE ADVANTAGEOUS TO THE U.S. AS USED IN THE U.S./MEXICO BORDER ZONE THAN WHEN USED IN OVERSEAS MANUFACTURING AND ASSEMBLY POINTS", according to a summary of U.S. Customs data compiled by the McAllen, Texas Chamber of Commerce, worldwide the value of foreign component or value added to items imported to the U.S. under 807.00 is over 80% with only 15 to 20% of U.S. value in the reimported items. On the other hand, materials processed in the Mexican border zone and reimported into the U.S. have a U.S. component value of about 70% and a foreign value added of only 30 to 35%. In support of this statement, see "Exhibit C", page 26.

Mexico is the U.S.'s fifth best customer nation and currently suffers a trade balance that is unfavorable to Mexico and favorable to the U.S. If the Border Industrial Program can benefit Mexico, and if as a result of the program, Mexico can increase its sales to the U.S., it makes sense to purchase from Mexico, a nation that will reciprocate with large purchases from the U.S. The recent history of U.S./Mexico trade is outlined in "Exhibit E", page 29.

IN SUPPORT OF OUR THIRD CONCLUSION, "THE BORDER INDUSTRIALIZATION PROGRAM PROVIDES COMPETITION FOR MANUFACTURING OPERATIONS THAT MIGHT OTHERWISE BE PLACED OVERSEAS", our industrial prospects interested in border operations fall into three categories:

- (1) Firms already using overseas manufacture,
- (2) Domestic U.S. manufacturers with strong competition from foreign imports, and
- (3) Manufacturing operations rapidly losing the market for their products as a result of high production costs and resulting high market prices their customers are reluctant to pay.

With the strict regulations under which foreign companies are established and operate in the border zone of Mexico and the inflationary effect the proximity of the U.S. has on their border wages, it is unlikely that manufacturers can

exploit cost advantages to an extent greater than in overseas foreign production. The principal long-range advantage of border operations to industry will be:

- (1) The degree to which suitable labor is available in the Mexican border zone that will maintain a high level of productivity in labor intensive manufacturing,
- (2) The advantage of proximity for supervisory and management personnel, and
- (3) Handling expenses and transportation distances and schedules that affect freight and inventory costs.

IN SUPPORT OF OUR FOURTH CONCLUSION THAT "THE LOCATION OF LARGE NUMBERS OF DIVERSIFIED MANUFACTURING OPERATIONS AND THE RELATIVELY HIGH WAGES PAID IN THESE OPERATIONS WITHIN THE BORDER ZONE OF THE REPUBLIC OF MEXICO IS BENEFICIAL FOR THE U.S. IN RELIEVING CONDITIONS OF POVERTY AND UNEMPLOYMENT IN THAT ZONE, THEREBY REDUCING THE PRESSURE FOR LEGAL AND ILLEGAL IMMIGRATION IN THE U.S.", the border zone in the U.S. has always been an economic and social problem area affecting a vast area of the Southwest, West, and Midwestern U.S. There is no question that economic depression of the border results from problems of slow economic development in Mexico and a tremendous pressure for movement into or adjacent to the U.S. among those Mexican people who have not found satisfactory economic opportunities in their native country. To show evidence of this pressure, I submit our "Exhibit F", page 30, "The Record of Apprehension of Illegal Aliens Within the U.S. The great majority of these apprehensions are reported by El Paso Bureau of Immigration officials to be from Mexico. If the Border Industrial Program in Mexico, using the authority provided by 806.30 and 807.00, can create a highly industrialized zone along the U.S./Mexico border and provide job opportunities that create a broad spectrum of skills, the living standards of Mexican border residents will draw closer to that of the U.S. People throughout the Southwestern U.S. will benefit from the improved social and economic situation that should develop once the problems brought about by border poverty are relieved. To illustrate the type of industries, job opportunities, economic details, and location of manufacturing operations already established in the border zone of Mexico, we submit a translation of a Republic of Mexico Report as of July 1969, "Exhibit G", page 31.

FINALLY, IN REGARD TO OUR FIFTH CONCLUSION THAT "IN ADDITION TO THE HIGH PERCENTAGE OF THE VALUE OF PRODUCTS PRODUCED UNDER THE MEXICAN BORDER INDUSTRIAL DEVELOPMENT PROGRAM THAT IS U.S. COMPONENT, MUCH OF THE MONEY PAID FOR WAGES AND SERVICES IN MANUFACTURING OPERATIONS IN THE BORDER ZONE OF MEXICO RETURNS TO THE U.S. IN THE FORM OF PURCHASES OF GOODS AND SERVICES", manufacturing operations, and especially those involving labor intensive activities, require many support services including maintenance, service, and supply for machinery and equipment; financial, legal and transportation services; and others. When plants are located overseas, such services must be provided to a great extent from the country where the plant is located. In

the Mexican Northern Border Industrialization Program, a high percentage of these services are obtained from the U.S. and, therefore, even the value added statistics included in "Exhibit C", page 26, contain costs that are not Mexican in origin.

It is anticipated that, if industry on the Northern border of Mexico continues to develop and expand, domestic services available in Mexico will expand. Nevertheless, because the operations are U.S. oriented and the U.S. will remain technologically advanced, they will always be highly dependent on support that is immediately available across the border in the U.S.

In addition to the above factor favoring the U.S., most key administrative and supervisory personnel employed in Mexican border plants are residents of the U.S. border cities and experience indicates that this trend will always exist.

Finally, at present and throughout past history, Mexican border residents have obtained a substantial amount of their normal periodic retail purchases in U.S. border cities and other U.S. population centers in the vicinity of the border. While the Government of Mexico is promoting programs to encourage border residents to purchase in Mexico, nevertheless, the tremendous attraction of quality and variety of consumer goods and services available in the U.S. will continue to attract Mexican customers to the U.S. from the border zone of Mexico. To substantiate this statement on the basis of the most recent professional survey available, see "Exhibit H", page 33.

SUMMARY - Our testimony is that the Border Industrialization Program is beneficial to the U.S. from the viewpoint of helping economically and socially deprived citizens in the Southwestern U.S. along the Mexican border; that the program is more favorable to the balance of trade of the U.S. than any alternative, except the erection of an extensive pattern of tariff barriers against foreign products from throughout the world; and that the continuation of U.S. Tariff Schedules Items 806.30 and 807.00 is an essential part of the Border Industrialization Program as presently conceived and developed.

ECONOMIC IMPLICATIONS OF THE BORDER INDUSTRIALIZATION PROGRAMBY DR. JOHN M. RICHARDS, DEAN OF THE SCHOOL OF BUSINESS ADMINISTRATIONOF THE UNIVERSITY OF TEXAS AT EL PASO

PREFACE - I am presently Professor of Economics and Dean of the School of Business Administration at the University of Texas at El Paso. My statement is in conjunction with the U.S./Mexico Border Cities Association. My conclusions and views coincide with theirs, though I am not a paid economic consultant of the Association. Also, my views do not represent those of the University of Texas at El Paso.

I have lived in and studied the economy of the border area in general and El Paso in particular, for eight years. Included among this experience is that as a consultant to the recent joint U.S./Mexico Commission on Development and Friendship. I have also worked closely with the University's Bureau of Business and Economic Research which is presently involved in extensive studies of the border area in general and the impact on that area of Mexico's participation under items 806.30 and 807.00. With this background, I limit my remarks, though not my concern, to the more local operations of the subject Tariff rules and their economic impact on what we term the U.S. borderland.

THE ISSUES IN THE MEXICAN BORDER INDUSTRIAL PROGRAM DEBATE - Let us look at the issues that are the subject of investigation. This is not an attempt to educate the Committee to its job, but to give a proper perspective to the role of the Mexican Border Industrialization Program and the U.S. borderland, and to note the inseparable impact between the question of 806.30 and 807.00 and the Mexican Border Industrialization Program.

The subject of this testimony is the economic impact of items 806.30 and 807.00 on such economic variables in the U.S. as the balance of payments, employment opportunities, wage levels, and existing or planned investments. The ultimate answer to these questions is locked in the cost structures of the industries and firms that are involved. These include those firms that are presently assembling and importing under 806.30 and 807.00, other firms considering such operations in the future, and competitive and potentially competitive foreign firms whose international market positions are likely to be affected by U.S. tariff schedules.

No empirical economic evidence, theory, or model will be able to say for sure what will be all of the final economic ramifications of either retaining or removing 806.30 and 807.00. There are a multitude of cost structures involved and there is such a constant flux of dynamics in domestic technology and international competition that to fully predict the whole range of variables is too much to hope for.

Any results arising from this investigation must be based on reasoned and educated value judgments. This is why it is important to fully review the meaning of Mexico's unilateral election to participate under items 806.30 and 807.00 and look closely at what participation by Mexico may mean to the most unrecognized depressed area of the United States.

By the role of "Mexican involvement" we refer to three questions:

- (1) Why the heightened concern and intense interest over the Mexican Border Industrialization Program?
- (2) What is taking place along the Mexican border in terms of firms actually moving into Mexico and their apparent impact on employment and wage opportunities in the U.S.?
- (3) What are some of the implications for the future with and without the provisions of 806.30 and 807.00?

It is relevant to ask why the sudden and heightened concern over items 806.30 and 807.00 coincides with the participation of Mexico. The practice followed under the present schedules is of long standing. It was set by administrative procedures prior to 1954; by court sanction 1954 to 1962; and by congressional authority to define and formalize the court upheld historical practice in 1962.

There was little concern, and certainly no concerted organized attack made upon 806.30 and 807.00, until Mexico allowed duty free imports of equipment and materials if the products were to be re-exported.

Since 1965 both total imports under 807.00 and Mexico's portion have increased significantly. Total imports have increased from \$577 million to \$1,600 million -- a 177% growth. In 1965 Mexico accounted for about \$3 million, or 1/2 of one per cent of the total. By 1969, Mexico's portion was \$145 million, or 9% of the total.

The rate at which Mexican imports are growing does indicate a more important role for Mexico in the future. Certainly Mexico believes that this is true, as do many people of the United States and elsewhere.

MEXICO AND 806.30 AND 807.00 - There appear to be three questions involved in getting a true analysis of the role of Mexico under items 806.30 and 807.00; these are:

- (1) To what extent is Mexico's role exaggerated because it is a highly visible, contiguous neighbor doing what other countries are doing?
- (2) Do the U.S. firms located in Mexico differ significantly from other firms and plants located in other nations under 806.30 and 807.00? and
- (3) Does Mexico's entry indicate a significant change in international trade patterns under the provisions of 806.30 and 807.00?

The first question proposed is "to what extent is Mexico's role exaggerated because it is a highly visible neighbor, doing what other countries are doing?"

If the participation of Mexico does represent a distinct variation in trade patterns and imports then any decisions should be based on what the continued

existence, or the repeal of sections 806.30 and 807.00 would mean to the U.S. economy in the future, in all aspects.

On the other hand, if a great deal of the concern represents something else--something without economic realism--then the investigation should be based on whether there is any reason, at this time, to abandon a long-standing practice.

There seems to be ample evidence that a lot of the opposition arising with the Mexican decision to participate under 806.30 and 807.00 has much to do with the visibility of these operations. It is necessary to understand that the border is a worried strip of land. The fact that plants are going into Mexico, that jobs are being created there, provides a highly visible and identifiable target for attack, regardless of whether or not these jobs would have ever been created anywhere else in the world. In an area of intense poverty and high insecurity, the Border Program becomes a thing to point a finger at, a thing about which to say "there is the cause of our problems."

There is no question that a large part of the concern over the border program is involved with emotional appeal arising from the visibility of this program. It occurs in an area that is rife with labor competition, threats to economic security and a high degree of misunderstanding.

ORGANIZED LABOR AND BORDER RESIDENT ATTITUDES ON BORDER INDUSTRIAL DEVELOPMENT -

The efforts that have led up to this investigation originated in 1967 when the Mexican participation took place. In December of that year a policy resolution of the AFL-CIO was adopted that, and we paraphrase, "steps must be taken to see that wages and working conditions of U.S. citizens are not adversely affected by low wage operations along the border of Mexico." The high point might be represented by the issue of the Federation in June 1969, but little substantive evidence is presented as to any adverse impact on employment and wages, even on the U.S. borderland. Instead, it primarily involves emotional appeal and descriptions of the hardships, suffering and dire poverty which do exist along the border. But it is the equal contention, by some who are as equally concerned, that the border industrialization program is more likely to alleviate, rather than to increase economic problems along the border.

There is also evidence that this emotional appeal does not really reflect the typical attitude of the U.S. border residents toward the border program. A study by Schooler and Gonzalez, published in the Michigan State University Business Topics indicated the following points, among others:

- (1) That U.S. residents of Laredo, the U.S. twin city in which the study was conducted, are less knowledgeable about the program than are Mexican citizens.

- (2) That a substantial majority of citizens in Laredo feel the program is mutually beneficial and non-prejudicial to either community.
- (3) That there are no statistically significant differences found among socio-economic classes as to one side of the border benefiting more than the other.
- (4) There is no significant difference on the basis of socio-economic classes as to favorable inclinations towards the program.
- (5) Border residents do feel that the border program raises wage levels and reduces unemployment in Nuevo Laredo, Mexico, but that the program will have no effect on wage levels in Laredo.
- (6) Border residents recognize local manufacturers as the economic group most disadvantaged by the program when compared to either retailers or workers.
- (7) Border residents do recognize the border industrialization program as an effort by the Mexican government to help the Mexican people.

One of Schooner and Gonzalez' conclusions is that the finding should lead the AFL-CIO to modify and redirect certain of their arguments even though they state that it is highly unlikely they will do so.

FACTORS TO BE CONSIDERED IN LOCATING A PLANT IN MEXICO - If the uncertainty of protectionism is stripped away, an important question becomes "Do the firms and plants locating in Mexico differ significantly from other firms and plants located in other nations under 807.00?"

Discussions of border activities are frequently filled with the fear of "runaway" or "fly-by-night" firms moving into Mexico, creating sudden job losses in the U.S. and adding to the balance of payments problem. Unfortunately, such firms are always present in any economic developmental scheme, be they government bonds, tax concessions, rental rebates, or what have you. Such marginal operators are always around, always looking for a break, and will take advantage of any opportunity that arises. Most of these firms live in such a hand-to-mouth manner that they have to take such moves or they would not long exist.

Mexico's decision to participate pinpoints the advantages occurring under the 807.00 tariff provision in an area contiguous to the United States rather than far removed. Thus, it does make it attractive to marginal or runaway firms, as well as others. We know that a few such firms have already moved into Mexico and that others will follow; it is part of their migratory pattern.

On the other hand, there are sufficient economic barriers, contingencies and considerations to make a Mexican location a complex economic decision for any wise manager. Mexico did not open up her borders to fly-by-night industries. She has publicly declared this, all of her actions indicate attempts to

discourage such firms, and other considerations compound these actions.

There are many steps to be taken and many things to be taken into consideration in moving into Mexico. Besides the screening process involved in application for corporations and permits, there is the attitude of Mexican investors in land, buildings and industrial parks, who need long term viable industries to make their investments a paying proposition.

There are real economic costs involved: added transportation from an area of the United States far removed from most major markets; and it must also be remembered that import duties are reduced but not eliminated. These cost must be taken into consideration.

Most important is a need for a close look at Mexican wage rates. Mexican wages are below those of the United States, but historically they have grown at a much faster rate. Between 1959 and 1964 the average real wage in Mexico grew at 9% each year. Actual wage increases range from a low of 4% per year to a high of over 18% a year. At this rate Mexican wages on the average could be expected to double in less than a decade.

The new Mexican labor law continues this trend. It not only pushes minimum wages up still higher, but adds more labor guarantees which are translated into costs for businessmen. It will also require firms to make some provision as to housing for their workers; either in the form of firm-owned rental units, subsidized rents, or the financing of houses for purchase by the workers. This latter provision will significantly raise either a firm's fixed investment or its variable costs.

The technological environment of the industry must also be of concern. Many labor intensive industries of today are becoming more and more capital intensive as new machines evolve. As machines are becoming capable of replacing fingers, eyes and minds, much of today's hand work, clerical work and other labor consuming activities are slowly but surely being replaced by machines, and industry that is labor intensive today may be impacted by automation in the future and could conceivably find itself located in the wrong place at the wrong time.

Add to these economic considerations the intangible factors of the political environment, and the decision to go to Mexico becomes even more traumatic. There is still a vestige of mutual distrust and suspicion prevailing between the United States and Mexico. A vestige that is not going to be easily erased by current discussions concerning Mexicanization of border industries; the American investor may well face a shared investment with a Mexican partner in the near future.

Mexican participation has no legislative foundation in Mexico. It is an administrative creation based on statutes that are already existing. This also creates a great deal of uncertainty in the minds of any potential businessmen. Each firm is handled individually. Machinery may be imported duty free or may be only 50%, or anywhere in between. What the decision of

various secretaries in Mexico will be concerning materials, machines, and personnel, as well as tax status, are all areas of uncertainty.

Given this wide spread set of different cost considerations and indistinct political evaluations it is little wonder that, as our studies have shown, most firms moving into Mexico fall into two distinct categories:

First, those faced with a cost price squeeze that frequently forces a dynamic or dramatic locational decision. Thus, the last ditch alternative was the decision to move operations overseas.

Second, those firms that have had previous experience in marketing, manufacturing or importing from outside the U.S. This experience induces management to include non-domestic solutions in the managerial set of alternatives. For these firms a Mexican location is not too different and indeed may be considered close to home.

THE CAUSE OF TRENDS UNDER 806.30 AND 807.00 - The long run upward trend of imports under items 806.30 and 807.00 has many causes. Primarily these reflect competitive pressures in international trade. Essentially the forces behind the long run trend would appear to be as follows:

- (1) The increased competition from nations such as Japan and those in Western Europe whose real competitive advantages force U.S. business firms to take counter competitive action.
- (2) The continuous disparity between labor markets and wage rate differentials that exist throughout the globe.
- (3) The claim by many businessmen that since the "Kennedy rounds" they need to utilize low cost labor abroad to manufacture goods or else to abandon the market to imported production.
- (4) The increased complexity and componentization of many products as well as changing production techniques that allow for a break or gap in the production and assembly process; which in turn permits a decentralization or scattering of plant operations in the production and final assembly process.

Mexico's role in these long run competitive trends appears to be primarily one of diverting trade by competing with other non-U.S. locations, rather than an escalation of this trend by competition with domestic production. This diversion of foreign imports, as opposed to an increase in the total imports, does give credence to the argument that items 806.30 and 807.00 will not only allow U.S. business to be competitive with foreign competition but, with Mexican participation, it has the added advantage of creating a favorable economic impact on the highly depressed area of the United States borderland.

There is no doubt that the diversion argument is substantially true. If Mexico were to begin attracting a substantial number of economically viable industries

from the United States, one would imagine that the border itself would notice the greatest impact. That is to say, that firms already located on the border, familiar with Mexico and things Mexican and able to arrange easy financial support would shift their base of operations or undertake expansion under the border program. There has, however, been no mass exodus of manufacturing firms along the border into Mexico.

In El Paso only two small local firms have taken advantage of the Mexican border program. One of these expanded its base of operations while the other does not represent a shift of location. It was established as a twin plant and it is questionable whether it would have been able to survive competitively without part of its operation in Mexico. Certainly it would not be operating at its present size, as it could not compete on the regional market that it is now in.

Other than in El Paso, only occasional, economically marginal firms have been in individual positions to take advantage of the border program. There has been only a small immediate adverse impact on employment opportunities from production diverted to Mexico. The basic industries located on the border continue to thrive, expand and compete by remaining in El Paso and in other cities along the border. In El Paso there is no question that this loss of jobs is less than the 922 new jobs already created by the border program (expected to reach 1,527 by mid-summer 1970). The employment sector of greatest expansion in El Paso is in the electronic control devices, where the rate of growth was 32% in 1969. This expansion added only 250 new jobs, but each one is important in El Paso.

On the other hand, the University's Bureau of Economic Research has questioned many of the firms existing in Juarez who use 807 and found that (a) they have other overseas plants involved operating under 807 or (b) have in the past depended upon foreign imports to supply the parts now produced in Mexico, or (c) would have to depend upon non-U.S. suppliers of goods if they could not use 807. For this majority of firms in El Paso and elsewhere along the border, Mexico has become alternative to a non-U.S. location. An alternative that they have easily adopted because of the favorable managerial and transportation aspect of a Mexican, rather than a distant location.

It should be emphasized that for many of the firms which have no overseas assembly operations or component imports, their current operations would not have been economically feasible in a U.S. location. In most of these cases, there is no doubt that the claim is legitimate, and not subterfuge. The mere type of operation, the low return and the significant importance of the wage bill indicates that these firms would not exist anywhere -- would not have created jobs for anyone -- if production was not carried on under the Mexican border program.

CHARACTERISTICS OF MEXICAN IMPORTS TO THE U.S. UNDER 806.30 AND 807.00 - The third question was "Does Mexico's entry indicate a significant change in international trade patterns under the provisions of items 806.30 and 807.00?"

That is to say, the forces behind the movement of firms into Mexico may be the same as those causing other locational shifts, but the differences in their operations in Mexico, or the results of those operations may have a different impact on patterns of employment, wages and international payments. The studies of our Research Bureau indicate that differences do exist for two reasons.

The first of these is that, for the most part, 807.00 imports from Mexico typically involve a higher per cent of U.S. component input in the total value than is true for most other areas. That is, most of the items imported from Mexico under 807.00 compete with other foreign supplies produced with either no U.S. components, or with a smaller per cent of U.S. components to total value.

Under items 806.30 and 807.00 the U.S. shares in some mix of domestic-foreign production as opposed to the alternatives of domestic production, with higher prices for protected goods, or dependence on imported foreign production. The ideal goal under this item would be for as high a domestic input as is economically possible. Our preliminary studies of 42 general items imported from Mexico under 807.00 indicate two trends:

- (1) That the bulk of the trade lies outside of item 807.00, and represents no (or changed) U.S. contribution to value.
- (2) That the share of the total which is imported from Mexico typically involves a substantial portion of 807.00 imports and a high per cent of U.S. inputs into total value.

The preliminary results of the study are presented in "Exhibit I", page 34. Unfortunately the study is not complete at this time, but we believe these trends will be substantiated. We will also be pleased to see that the final results are forwarded to this Committee when the research is completed, if desired.

If the early trends are substantiated it would indicate that the U.S. could improve its own position in our internal domestic market through 807.00 and Mexico's participation under this provision. It would do this largely at the expense of total foreign production and of imports with little or no U.S. components involved.

We point to two primary reasons why Mexican imports under 807.00 do now, and will continue to have a large portion of domestic production as a part of total value:

- (1) Lower total transport costs (including shipping, communications, schedules and inventory) to and from Mexico make it feasible to ship domestic components for assembly, rather than relying on foreign production.

- (2) A location almost within the U.S. facilitates both a physical and managerial linkage of domestic and foreign specialization of production that leads firms to attempt to compete on component production, rather than depend on totally foreign imports.

We are confident that our complete study will give strong support to the argument that the combination of 807.00 and Mexican participation will enlarge the share of U.S. production and participation in our internal market; that the domestic input will increase not only by a greater U.S. input into component parts of final goods, but also by increasing our competitive position with imports that involve no U.S. components.

This, after all, is the theory behind 806.30 and 807.00 and Mexico's participation would seem to make that theory a more valid one. Logic, casual observation and the little empirical evidence as is available all seem to support the basic contention that items 806.30 and 807.00 strengthen, rather than weaken our competitive position.

There is one other aspect to a combination of 806.30 and 807.00 and Mexican participation on domestic employment and balance of payment conditions. We refer, again, to where the action is taking place. It is occurring within the interrelationships of the border economy. It is causing the location of U.S. twin plants and support operations along the border. It affects the mix of retail importing and exporting in border cities.

The economic lives of both sides of the border are bound up together.

SUMMARY - We have testified as to the need for more employment opportunities along the border. Every evidence indicates a net gain in jobs and income under the Border Industrial Program for this highly depressed area.

We conclude the following:

- (1) Much of the concern over 807.00 is emotionally charged, and may well have been manufactured to soothe the frustrations of people who are seeking a devil to blame. Certainly it does not reflect the attitudes of the majority of border inhabitants of all socio-economic classes.
- (2) Mexico's decision to participate in 807.00 adds one more alternative for firms caught in international competitive conditions and will primarily divert investment, assembly and employment from non-U.S. locations with only a minor job diversion from the U.S.
- (3) The net gain to the U.S. in direct and indirect employment from Mexico's participation under items 806.30 and 807.00 is beneficial to the U.S. in general and more particularly to a section of this country which is in dire need of expanded job and income opportunities.

"EXHIBIT A"
SHEET 1 OF 1

* MANUFACTURING OPERATIONS ESTABLISHED IN EL PASO AND JUAREZ AS A RESULT OF
THE MEXICAN PROGRAM FOR NORTHERN BORDER INDUSTRIAL DEVELOPMENT

<u>Firm</u>	<u>Product Category</u>	<u>El Paso Employment</u>	<u>Juarez Employment</u>
Acapulco Fashions	Women's Garments	45 (50)	350
Advance Ross	Electronics	12	250
American Hospital Supply	Paper Garments	0 (25)	0 (100)
Baldwin Piano	Electronics and Piano Components	30	100
Boss Manufacturing	Gloves	40	70
Coilcraft	Electronics	0	50
Cowtown Boot Company	Western Boots	0 (100)	225
Chemical Producers Components, Inc.	Fertilizer	20	20
Essex International	Electronics	0 (200)	0
Free Breeze	Electronics	0	30
Hallcrafters, Inc.	Campers	0 (30)	26
Hatch International	Electronics	50 (200)	0
Kessler Industries	Electrical	24	23
A. C. Nielson	Metal Furniture	175	100
	Sales Promotion Coupons	3	350
Ponderosa Wholesale	Wood Products	20	160
Paper Novelty	Decorations	0	17
R C A	Electronics	0	350
Rosebud Importing	Wood Products	75	75
Saunders Bootmakers	Western Boots	10	250
Susan Crane	Decorations	0	40
Software, Inc.	Women's Under-garments	40	0
Southwest Frame & Millwork	Wood Products	139	60
Sprague Electronics	Electronics		
Taylor Publishing	Books	89	0
University Computer Co.	Data Processing	150	0
Total Firms Listed			28
Total Firms in El Paso			20
Total Firms in Juarez.			21
Total Current El Paso Employees.			922
El Paso Employees by Midsummer 1970.			1,527
Total Current Juarez Employees			2,606
Juarez Employees by Midsummer 1970			2,706

* Compiled by the El Paso Chamber of Commerce, Business Development Department as of May 4, 1970.

(.) Indicates employment programmed to begin by midsummer 1970 in plant facilities under construction.

* ECONOMIC & DEMOGRAPHIC COMPARISONS OF PERSONS WITH SPANISH SURNAMES

CITY - EL PASO, TEXAS

I. Family Income Comparisons

	<u>% of El Paso Families Mexican-American</u>	<u>% of all Families City of El Paso</u>
Under \$1,000	6.56	4.29
\$1,000 to \$1,999	10.61	6.93
\$2,000 to \$2,999	16.50	10.84
\$3,000 to \$3,999	17.40	13.05
\$4,000 to \$4,999	14.43	12.31
\$5,000 to \$5,999	11.66	12.09
\$6,000 to \$6,999	7.44	9.45
\$7,000 to \$7,999	5.50	7.26
\$8,000 to \$8,999	3.33	6.10
\$9,000 to \$9,999	2.09	4.47
\$10,000 and over	4.43	13.15
Median Income: Families	\$3,937	\$5,211
Fam. & Unrel. Indiv.	\$3,501	\$4,568

II. Comparison of Other Demographic Factors

	<u>El Paso Mexican-American</u>	<u>Total El Paso City</u>
Estimated Population - 1969	158,900	350,000
% of Population in Civilian Labor Force	31.65%	31.69%
% of Labor Force Mexican-American	45.38%	
% Employed	90.06%	93.34%
% Unemployed	9.93%	6.39%
% of Population Male, 14 years Old and Over	26.83%	30.05%
% of Population Female, 14 years Old and Over	32.37%	33.15%
Median School Years Completed	6.8	11.1

Calculations Based on 1960 Census of Population

* Compiled by the El Paso Chamber of Commerce. Research and Records Department,
April 1, 1970.

SUMMARY OF U.S. IMPORTS UNDER ITEMS 806.30 AND 807.00
OF THE U.S. TARIFF SCHEDULES - 1966 - 1968

	----- Under Sec. 807.00 -----			Sec. 806.30
<u>TOTAL U.S. IMPORTS</u> 1/	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1968 Apprx.</u>
Total value	\$889,800,890	\$931,705,926	\$1,431,972,671	\$122,000,000
U.S. component value	113,272,063	146,659,801	225,743,422	65,000,000
Value added 2/	776,528,827	785,046,125	1,206,229,249	57,000,000
% Foreign Value	87.2%	84.2%	84.2%	46.7%

FROM MEXICO

Total value	7,045,495	19,306,985	73,419,032	1,200,000
U.S. component value	3,618,820	12,302,807	49,670,705	800,000
Value added	3,426,675	7,004,178	23,748,327	400,000
% Foreign Value	48.6%	36.3%	32.3%	33.3%

Sec. 806.30 applies to articles of metal manufactured in the U.S. and exported for further processing.

Sec. 807.00 applies to articles assembled abroad of U.S.-product fabricated components.

1/ Under Sections 807.00 and 806.30, TSUSA, United States Tariff Commission.

2/ Enhanced value abroad.

Source: Foreign Trade Division, U. S. Bureau of the Census, Washington, D.C.
Compiled by the McAllen, Texas Chamber of Commerce.

EL PASO

LABOR MARKET

W. H. TOWNSEND	EDWARD E. GRAVES	532-4911	VOL. XX No. 1
DISTRICT DIRECTOR	ASS'T. DISTRICT DIRECTOR	219 Upson Dr.	January 1965

Skills and Abilities on Call As Needed Your TEC Office

DECEMBER HIGHLIGHTS Nonagricultural employment rose substantially during the past month. The largest increase was marked up by retail stores as Christmas extras were added to local payrolls. Offsetting some of the gain in total employment, agricultural employment registered a normal seasonal decline. Unemployment dipped in December, after climbing sharply in November. The local labor supply exceeds employer demands. The forecast for the next two months indicates total employment is expected to decline seasonally while unemployment shows a moderate upward trend. The El Paso labor force registered a healthy growth during calendar year 1964.

NONFARM EMPLOYMENT ROSE IN DECEMBER Since mid-November, nonagricultural employment advanced by 600 employees. The largest increase was marked up in retail trades as most stores added extra personnel just prior to Christmas. El Paso Sun Carnival activities were also responsible for numerous hotels, restaurants, and amusement establishments hiring more employees during December. Modest gains were also recorded in construction, transportation, communications, utilities, wholesale trade, finance and federal government.

Manufacturing employment showed a net gain of approximately 100 salaried workers in December. The primary metals industry marked up the largest increase as one local plant stepped up production. Manufacturers of food products, motor vehicle and equipment, apparel, and leather goods also hired additional workers the past month.

AGRICULTURAL EMPLOYMENT DECLINES SEASONALLY During December farm employment dipped seasonally as local farmers laid off 500 workers, mostly cotton pickers, as the 1964 cotton harvest neared completion. The increased use of mechanical cotton picking machines in the El Paso area has reduced the number of hand pickers required locally. With Public Law 78 expiring December 31, 1964, it is expected local farmers will expand their use of mechanical equipment in the future as Mexican Bracero labor will no longer be available under this program.

UNEMPLOYMENT DIPS NOTICEABLY Estimated unemployment dipped from the higher figure reported in November. The present estimate of 5,000 compares to 5,450 last month, 4,050 in October and to 5,000 one year ago. The current unemployment rate of 4.9 percent compares to 5.3 percent in November, 4.0 percent in October, and to 5.0 percent in December 1963.

Following the pattern of previous years, unemployment is expected to rise gradually through the remaining winter months, then taper off as spring arrives and business again picks up momentum.

"EXHIBIT D"
SHEET 2 OF 2

LABOR SUPPLY AND DEMAND The local supply of nonfarm applicants exceeds the current and anticipated labor demands in the El Paso Labor Market Area.

FORECAST SEASONAL DECLINE IN EMPLOYMENT Total employment is expected to decline by 1,050 within the next two months. During this period, nonagricultural employers are forecast to lay off 850 employees, a majority of whom were extras hired for the Christmas rush during December. Farm employment is also expected to dip by 200 seasonal workers as farm activity will be at a low point for the year. All of this decline is a normal pattern followed at this time each year in El Paso.

LABOR FORCE EXPANDS IN 1964 The El Paso Labor Market Area experienced a healthy growth during 1964. In comparison to December 1963, total employment rose by 1,300 workers for a gain of 1.4 percent over the year. It now appears employment in El Paso County has overcome the slight slump which took place during 1963.

The greatest over-the-year increase was marked up in the garment manufacturing industry followed by retail trade, medical and professional services, government, and transportation and allied services. Very few industrial groups fell below last years level but primarily included construction, food manufacturing, petroleum products, and wholesale trade.

LABOR FORCE ESTIMATES AND FORECAST
EL PASO LABOR MARKET AREA - EL PASO COUNTY

Item	Current	Prior	Periods	Anticipated
	Dec. 1964		Dec. 1963	
Total Civilian Labor Force	102,000	102,050	100,750	101,450
Unemployment--Total	5,000	5,450	5,000	5,500
Female	1,750	1,900	1,770	1,925
Idled by Disputes	0	0	50	0
Employment--Total 1/	97,000	96,600	95,700	95,950
Agricultural	2,000	2,500	1,800	1,800
Nonagricultural	95,000	94,100	93,900	94,150
Manufacturing	16,455	16,350	15,735	16,480
Construction	4,880	4,860	5,530	4,880
Trades	26,255	25,400	26,070	25,205
Government	16,360	16,430	16,105	16,510
Other Nonmfg.	31,050	31,060	30,460	31,075
Nonagri. Wage & Salary	83,375	82,475	82,275	82,525

1/ Includes wage and salary workers, self-employed, unpaid family workers, and domestic in private households.

TEXAS EMPLOYMENT COMMISSION OFFICES - EL PASO METROPOLITAN AREA
Telephone 532-4901

Edith L. Donaho, Manager
Local Office
616 N. Santa Fe Street
El Paso, Texas

W. N. Blissit, Manager
Claims Office
618 N. Santa Fe Street
El Paso, Texas

Alfonso Torres, Manager
Farm, Labor & Domestic
1507 E. San Antonio Ave.
El Paso, Texas

HISTORY OF U. S./MEXICO TRADE 1967-1969

	<u>1967</u>	<u>1968</u>	<u>**1969</u>
U. S. Exports to	\$ 1,221,600,000	\$ 1,364,600,000	\$ 1,176,100,000
U. S. Imports from	748,400,000	893,400,000	842,600,000
Difference	\$ 472,700,000	\$ 471,200,000	\$ 333,510,000

** Through October

Source: U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, December 1969. pp S-22-23.

Compiled by the El Paso Chamber of Commerce

"EXHIBIT F"
SHEET 1 OF 1

ALIENS APPREHENDED, ALIENS DEPORTED, AND ALIENS REQUIRED TO DEPART
YEARS ENDED JUNE 30, 1931 - 1969

Year	Apprehended	Aliens Expelled		
		Total	Aliens Deported	Aliens Required To Depart
1931	22,276	29,861	18,142	11,719
1932	22,735	30,201	19,426	10,775
1933	20,949	30,212	19,865	10,347
1934	10,319	16,889	8,879	8,010
1935	11,016	16,297	8,319	7,978
1936	11,728	17,446	9,195	8,251
1937	13,054	17,617	8,829	8,788
1938	12,851	18,553	9,275	9,278
1939	12,037	17,792	8,202	9,590
1940	10,492	15,548	6,954	8,594
1941	11,294	10,938	4,407	6,531
1942	11,784	10,613	3,709	6,904
1943	11,175	16,154	4,207	11,947
1944	31,174	39,449	7,179	32,270
1945	69,164	80,760	11,270	69,490
1946	99,591	116,320	14,375	101,945
1947	193,657	214,543	18,663	195,880
1948	192,779	217,555	20,371	197,184
1949	288,253	296,337	20,040	276,297
1950	468,339	579,105	6,628	572,477
1951	509,040	686,713	13,544	673,169
1952	528,815	723,959	20,181	703,778
1953	885,587	905,236	19,845	885,391
1954	1,089,583	1,101,228	26,951	1,074,277
1955	254,096	247,797	15,028	232,769
1956	87,696	88,188	7,297	80,891
1957	59,918	68,461	5,082	63,379
1958	53,474	67,742	7,142	60,600
1959	45,336	64,598	7,988	56,610
1960	70,684	59,625	6,829	52,796
1961	88,823	59,821	7,438	52,383
1962	92,758	61,801	7,637	54,164
1963	88,712	76,846	7,454	69,392
1964	86,597	81,788	8,746	73,042
1965	110,371	105,406	10,143	95,263
1966	138,520	132,851	9,168	123,683
1967	161,606	151,607	9,260	142,347
1968	212,667	189,082	9,130	179,952
1969	283,186	279,281	13,725	265,556

"EXHIBIT G"
SHEET 1 OF 2

* DATA ON MEXICAN BORDER MANUFACTURING INDUSTRIES
JULY 31, 1969
ACCUMULATED BY THE DEPARTMENT OF INDUSTRY AND COMMERCE
REPUBLIC OF MEXICO

CITIES	TOTAL PLANTS APPROVED	OPERATING	PERSONNEL EMPLOYED	AV. MONTHLY SALARY	TOT. ANNUAL SALARY	VALUE IMPORTED PRODUCT	VALUE ADDED IN MEXICO
TIJUANA, B. C.	30	30	1,719	\$125.88	\$ 259,556	\$2,346,817	\$ 349,646
TECATE, B. C.	4	3	260	78.87	24,606	55,504	33,256
MEXICALI, B. C.	38	38	3,405	81.00	331,000	3,236,960	1,023,632
SAN LUIS R.C., SON.	1	1	35	NA	NA	NA	NA
NOGALES, SON.	4	2	580	71.87	50,029	282,008	124,925
AGUA PRIETA, SON.	1	1	75	68.89	6,200	NA	12,224
CD. JUAREZ, CHIH.	23	13	2,039	111.81	272,768	6,440,552	1,328,688
PIEDRAS NEGRAS, COAH.	6	3	572	71.78	49,272	470,352	151,040
CD. AGUNA, COAH.	1	1	145	75.86	13,200	231,744	137,496
NVO. LAREDO, TAMPS.	12	6	3,008	74.91	270,424	2,798,904	534,736
REYNOSA, TAMPS.	4	1	310	78.60	29,240	181,168	72,544
MATAMOROS, TAMPS.	20	7	2,083	85.68	209,176	7,357,568	531,264
PALOMAS, CHIH.	1	1	52	60.90	3,800	98,272	8,272
SUBTOTAL	145	107	14,283	----	\$1,520,832	\$23,499,848	\$4,207,744
GUADALAJARA, JAL.	1	--	1,200	36.11	52,000	1,388,750	330,020
SAN LUIS POTOSI	1	1	375	68.59	30,884	23,912	12,216
SUBTOTAL	2	1	1,575	----	82,884	1,412,664	342,416
GRAND TOTAL	147	108	15,858		\$1,503,720	\$24,915,712	\$4,550,160

"EXHIBIT G"

SHEET 2 OF 2

DATA ON MEXICAN BORDER MANUFACTURING INDUSTRIES

BY TYPE OF INDUSTRY

INDUSTRY	APPROVED	OPERATING	PERSONNEL EMPLOYED	AV. MONTHLY SALARY	TOT. ANNUAL SALARY	VALUE IMPORTED PRODUCT	VALUE ADDED IN MEXICO
ELECTRICAL AND ELECTRONICS	57	40	8,456	\$ 83.63	\$ 848,880	\$ 7,511,472	\$ 2,616,568
CLOTHING	36	32	2,341	97.77	271,860	1,745,529	379,920
FOOD PROCESSING	7	3	740	82.57	73,320	1,081,488	155,832
WOODWORK MANUFACTURING	7	5	738	44.27	83,488	587,552	407,768
SPORTING GOODS & TOYS	6	6	1,500	52.39	94,312	1,334,336	236,360
MISCELLANEOUS PROCESSING	34	17	2,083	94.77	231,880	4,652,136	746,264
TOTAL	147	103	15,858		\$1,603,720	\$24,915,712	\$4,550,160

* Translated to English and all figures transposed to U.S. values by the El Paso Chamber of Commerce Research and Records Department.

RETAIL PURCHASING BY RESIDENTS OF MEXICO
IN EL PASO, TEXAS

EL PASO SHOPPERS SURVEY

<u>In what city do you live?</u>		<u>Where is head of the household employed?</u>	
El Paso	65.8%	El Paso	64.1%
Juarez	25.5	Juarez	18.8
Texas (Outside El Paso)	0.2	Texas (Outside El Paso)	3.2
Mexico (Excluding Juarez)	4.3	Mexico Excluding Juarez)	4.1
New Mexico	4.0	New Mexico	4.1
Other United States	0.2	Other United States	1.5
		Other	0.6
		Unemployed or Retired	3.6

ANNUAL SHOPPERS GOODS* SALES VOLUME IN EL PASO
FROM RETAIL PATRONAGE ORIGINATING IN MEXICO

(In \$000's)

<u>Source of Patronage</u>	<u>El Paso Metropolitan Area</u>		<u>Downtown El Paso</u>		<u>Outlying Retail Locations</u>	
	<u>Sales Volume</u>	<u>Percent of Total Volume</u>	<u>Sales Volume</u>	<u>Percent of Total Volume</u>	<u>Sales Volume</u>	<u>Percent of Total Volume</u>
Ciudad Juarez	\$24,469	17%	\$18,898	26%	\$5,571	8%
Other Locations In Mexico	<u>4,300</u>	<u>3</u>	<u>2,907</u>	<u>4</u>	<u>1,393</u>	<u>2</u>
Total	<u>\$28,769</u>	<u>20%</u>	<u>\$21,805</u>	<u>30%</u>	<u>\$6,964</u>	<u>10%</u>

* Shoppers Goods are merchandise subject to longer-term consumption (as opposed to daily consumption) and are usually found in commercial districts or shopping centers which serve the community (or a region) rather than only neighborhood trading areas.

Source: Real Estate Research Corporation, Field Survey. Community Economic Analysis - El Paso August 1966.

DETAIL OF IMPORTS UNDER 807.00 TO THE U.S.
BY COMMODITY IN 1968; WORLDWIDE AND FROM MEXICO

General Import trade statistics were obtained for 1968 from The U.S. Department of Commerce, Bureau of the Census publication FT 246/1968 Annual. Import statistics under 807 were obtained from the U.S. Department of Commerce, Bureau of the Census, Foreign Trade, Processing and Systems Division (unpublished data). Relevant analysis was made of items which were important (e.g. over \$300,000) imports from Mexico under 807 in 1968. Specifically the following were examined:

- (a) the importance of 807 to total import trade in the item
- (b) the importance of Mexican imports to total import trade in the item
- (c) the portion of the item composed of U.S. components in Mexican imports under 807
- (d) the portion of the item composed of U.S. components in the total import trade of the item.

The important trade items fell into three general tariff classifications with the following two items being the most important in terms of total imports:

1. Schedule 3--Textile Fibers and Textile Products

1.1 TSUSA No. 3825840

Womens and Girls Wool Knit Skirts Not Orn over \$5. 1b

1968 value of total imports \$14,244,801

Percent of Mexico to total import 2.6%

Percent of all 807 to total import 2.7%

Percent imported with no (or form
changed) U.S. component 97.3%

Percent of U.S. components in item
imported from Mexico under 807 83.5%

Percent of U.S. components in items imported
from all countries 2.2%

1.2 TSUSA No. 3825880

Womens and Girls Wool Knit Outerwear NES Not Over \$5. 1b.
1968 value of total imports \$13,388,039
Percent of Mexico to total import 4.2%
Percent of all 807 to total import 4.3%
Percent imported with no (or form
changed) U.S. components 95.7%
Percent of U.S. components in items
imported from Mexico under 807 87.6%
Percent of U.S. components in items
imported from all countries 3.6%

2. Schedule 6--Metals and Metal Products

2.1 TSUSA No. 6765200

Office Machine Parts NES
1968 value of total imports \$50,324,301
Percent of Mexico to total import 3.0%
Percent of all 807 to total import 45.6%
Percent imported with no (or form
changed) U.S. components 54.4%
Percent of U.S. components in item imported
from Mexico under 807 62.0%

"EXHIBIT I"
SHEET 3 OF 5

Percent of U.S. components in item imported

from all countries 20.6%

2.2 TSUSA 6852015

T.V. Receivers, Monochrome, Screen over 10 inches

1968 value of total imports \$65,273,256

Percent of Mexico to total import 7.7%

Percent of all 807 to total import 20.6%

Percent imports with no (or form
changed) U.S. components 79.4%

Percent of U.S. components in items
imported from Mexico under 807 70.9%

Percent of U.S. components in items
imported from all countries 6.7%

3. Schedule 7-- Specified Products; Miscellaneous and Nonenumerated Products

3.1 TSUSA No. 7124900

Elec. Measuring Etc. Devices NSPF and Parts Thereof

1968 value of total imports \$49,816,683

Percent of Mexico to total import .9%

Percent of all 807 to total import 10.2%

Percent imports with no (or form
changed) U.S. components 89.8%

Percent of U.S. components in items
imported from Mexico under 807 78.2%

Percent of U.S. components in items
imported from all countries 2.7%

3.2 TSUSA No. 7379050

Toys, Not Having a Spring Mechanism NSPF

1968 value of total import	\$17,292,752
Percent of Mexico to total import	4.6%
Percent of all 807 to total imports	5.1%
Percent imports with no (or form changed) U.S. component	94.9%
Percent of U.S components in item imported from Mexico under 807	83.1%
Percent of U.S. components in items imported from all countries	4.0%

The following conclusions can be drawn from the preceeding summary statistics of important imports:

- (a) Mexico's portion makes up a small portion of total imports.
(2.6%; 4.2%; 3.0%; 3.7%; .9%; 4.6%;
- (b) Imports under 807 for most of these key items is a relatively small portion of the total trade. (2.7%; 4.3%; 45.6%; 20.6%; 10.2%; 5.1%)

Consequently, the amount of goods imported into the United States with no U.S. component (or, if such components are included, their form has been changed) generally make up the bulk of the trade. (97.3%; 95.7%; 54.4%; 79.4% 89.8% 83.1%.) This portion represents substantially zero United States contribution. These good, however, compete in the internal U.S. market.

- (c) Therefore, the portion of U.S. components used in the Mexican goods imported under 807 (83.5%; 87.6%; 62.0%; 70.9%; 78.2%; 83.1%;) is much greater than the U.S. portion found in all imports (2.2%; 3.6%; 20.6%; 6.7%; 2.7%; 4.0%;). It can therefore be concluded that total U.S. portion can be increased by (1) stopping the flow of all goods with zero or low United States components or (2) emphasizing the use of 807, especially with Mexico.
-

CALIFORNIA COUNCIL FOR INTERNATIONAL TRADE,
San Francisco, Calif., May 15, 1970.

HON. WILBUR D. MILLS,
*Chairman, House Ways and Means Committee,
 House of Representatives, Washington, D.C.*

DEAR MR. MILLS: The Board of Directors of the California Council for International Trade has taken the position that Sections 807 and 806.30 of the U.S. Tariff Schedule, now subject to repeal, should be retained.

Reasons for the Board's decision are stated on the enclosed sheet.

On behalf of the Board of Directors and the members of the CCIT, I also urge you to give due consideration to this matter and take all possible steps to retain this important part of the Tariff Schedule.

Thank you for your cooperation.

Sincerely yours,

G. B. LEVINE, *Chairman.*

SECTIONS 806.30 AND 807 OF THE U.S. TARIFF SCHEDULE

We are also enclosing for your consideration, a copy of CCIT's position urging the Tariff Commission to retain Section 806.30 and 807 of the U.S. Tariff Schedule, now subject to repeal.

The following reasons are given:

1. The Sections as they exist improve the competitive position of many U.S. companies both in the U.S. and foreign markets and, on balance, are a positive factor in the health of the U.S. economy. Organized labor has expressed a strong concern for maintaining full employment in the U.S. economy. The CCIT shares this concern and submits that Sections 806.30 and 807 contribute to full employment by stimulating demand for U.S. goods and services in at least four ways:

a) As a result of advanced U.S. technology and Sections 806.30 and 807, foreign manufacturers find it advantageous to buy U.S. components, based on both quality and price. In many cases, U.S. components are competitively priced only because a *portion* of the manufacturing is performed abroad. Repeal of the Sections would most likely result in the purchase of non-U.S. components by foreign manufacturers.

b) U.S. manufacturers, having a portion of their productive capacity abroad, are able to compete more effectively for foreign sales, thus stimulating domestic production.

c) Overseas facilities permit U.S. manufacturers to be price competitive in the U.S. market where many foreign manufacturers are selling aggressively.

d) The U.S. shipping and air cargo industries benefit positively from the need to move goods back and forth in international trade.

2. Repeal of the Sections would weaken the competitive posture of U.S. manufacturers, thereby strengthening foreign competition. The result would be higher imports, lower exports, and a serious negative effect on the U.S. balance of payments.

3. The Sections have resulted in a strengthening of the economies of many countries including Mexico, Hong Kong, South Korea, Taiwan, and Singapore, and have done so with a net positive effect on the U.S. economy. Repeal of the Sections would not only injure the U.S. economy, but would disrupt the economies of the countries mentioned above, and would have a deleterious effect on U.S. relations with these many countries.

4. CCIT has consistently supported, and continues to support, legislation which promotes the free flow of U.S.-made goods in international trade. The Sections as they now stand encourage this free flow.

COMMERCE AND INDUSTRY ASSOCIATION OF NEW YORK,
New York, N.Y., May 21, 1970.

HON. WILBUR D. MILLS, *Chairman,
 House Ways & Means Committee,
 House Office Building,
 Washington, D.C.*

DEAR CONGRESSMAN MILLS: The Commerce & Industry is the service chamber of commerce for New York State and the New York metropolitan area.

It's membership includes some 3,500 business companies, with more than half of them engaged directly or indirectly in international trade.

Over the years American industry has been acutely aware of Item 807.00 of the Tariff Schedules of the United States, which permits an American manufacturer to export articles for assembly abroad and to import the assembled product without the payment of duty on the United States components but only on the costs of assembly.

The law is very explicit in that no act of manufacture shall be performed on such articles abroad. Thus, while the United States articles can be combined into an assembly overseas, they may not be advanced in value or improved in condition except by having been so assembled. This provision also allows the imported article to contain components manufactured in another country and there assembled along with the United States components into a completed product. When such an article is imported into the United States, import duty is not assessed on the cost or value of its United States components.

Hundreds of United States manufacturers have enjoyed the benefits of Item 807.00 TSUS, and this privilege has contributed significantly to their ability to offer diversified products at competitive prices in the domestic market to the benefit of the American consumer.

We believe that Item 807.00 should remain a part of the Tariff Schedules of the United States and be available to American industry for use whenever it is deemed appropriate. For that reason H.R. 14188, a bill to eliminate Item 807.00 TSUS, should be defeated.

Please make this recommendation a part of the record of Committee hearings on Foreign Trade Policy.

Respectfully,

VINCENT J. BRUNO, *Director.*

STATEMENT OF FRANK BIRKHEAD, JR., MANAGER, McALLEN INDUSTRIAL BOARD

Gentlemen: This written statement is presented in lieu of all testimony by the McAllen Industrial Board, McAllen, Texas, as a representative of the City of McAllen and the McAllen Chamber of Commerce, together with a group of interested businessmen from Reynosa, Tamaulipas, Mexico. This statement and argument is presented on behalf of the domestic producer (Form-O-Uth Company, Gardena, California, and its Mexican affiliate, Rey-Mex Bra de Mexico, S. A.), other potential domestic users and the general labor interests of the United States-Mexico border city of McAllen, Texas.

Attached as Exhibit A is a map of the United States-Mexico border, which shows the relative location of McAllen, Texas, and Reynosa, Tamaulipas.

The McAllen Industrial Board, which is a joint-venture agency in industrial development sponsored by McAllen's municipal government and McAllen Chamber of Commerce, supports the retention of items 806.30 and 807.00 of the Tariff Schedules of the United States (TSUS).

The basic reasons for this support are: (1) the development of industry in the McAllen-Reynosa area of Texas, (2) the further development of a "good-neighbor" atmosphere between the United States and Mexico, and, (3) the strengthening of the bond between the United States and United States producers which must rely on the responsibility and reliability of the laws promulgated by their lawmakers.

Of primary concern to both U.S. producers and the labor market of the U.S. represented by the AFL-CIO is *jobs*. No one disputes that the area in which McAllen, Texas, is located has need of industry to create jobs. The Form-O-Uth Company has committed itself to build a plant in this area. Such commitment was done *solely* on the strength of a successful application of items 806.30 and 807.00 TSUS. Other U.S.-Mexico border cities who now have such industries have put local unemployed people in gainful occupations, and the McAllen Industrial Board believes such success will breed further industrial plants—but not without the retention of the items of TSUS in dispute. The obvious alternative seems to be well publicized—the purchase of products from the Far East.

Thus, we are brought to the question of the extension of the "good-neighbor" policy between Mexico and the United States. Again, U.S. labor has played a

great part in the successful application of items 806.30 and 807.00. Without the U.S. labor fabricating this machinery and raw materials used in the plants in Mexico, there could be no operation to utilize the particular items of TSUS. Would the labor forces in the U.S. exert their weight to dry up the manufacture of this machinery and material? Particularly, if such action resulted in further importation from the Far East—without benefit of U.S.-made machinery and parts.

It is interesting at this juncture to notice that the U.S. Bureau of the Census reports that the imports from Mexico in 1968 under item 807.00 amounted to 5.1 percent of the total dollar volume of imports into the U.S. from all foreign countries. Of this amount, 22 percent of the dollar value from Mexico under this section was U.S. component value. Only 0.2 percent of the value was added in Mexico. Thus, the extinction of items 806.30 and 807.00 will actually harm U.S. labor more than Mexico. If we are to protect U.S. labor, these items must be retained. Attached as Exhibit B is a breakdown of these imports.

Finally, it must be urged that the conscience of the United States is at stake in the suspension of items 806.30 and 807.00. In reliance upon the TSUS, the Mexican Government in 1965 began its Border Industrialization Program. Encouraged by Mexico and approved by the U.S. Government, American businessmen by 1969 had plant investments in the Republic valued at more than \$200 million (U.S. Cy.). Unless these businessmen can rely upon their own government, to whom must they now turn? The labor forces that made the machinery and materials used by the business interests must join forces to insist upon the United States maintaining its responsibility and reliability toward them—and the Republic of Mexico.

The McAllen Industrial Board respectfully urges the House Ways and Means Committee to find that Items 806.30 and 807.00 TSUS be retained.

Exhibit A



United States - Mexico Border

EXHIBIT B.—MEXICO CONTRIBUTES ONLY NOMINALLY TO U.S. IMPORTS UNDER SECS. 807.00 AND 806.30 OF THE U.S. TARIFF SCHEDULES

	Under sec. 807.00			Sec. 806.30, 1968 approximate
	1966	1967	1968	
Total U.S. imports: ¹				
Total value.....	\$889, 800, 890	\$931, 705, 926	\$1, 431, 972, 671	\$122, 000, 000
U.S. component value.....	113, 272, 063	146, 659, 801	225, 743, 422	65, 000, 000
Value added ²	776, 528, 827	785, 046, 125	1, 206, 229, 249	57, 000, 000
From Mexico:				
Total value.....	7, 045, 495	19, 306, 985	73, 419, 032	1, 200, 000
U.S. component value.....	3, 618, 820	12, 302, 807	49, 670, 705	800, 000
Value added.....	3, 426, 675	7, 004, 178	23, 748, 327	400, 000
Mexico as a percentage of total U.S. imports:				
Total value.....	0.8	2.1	5.1	1
U.S. component value.....	3.2	8.4	22.0	1
Value added.....	.4	.8	.2	1

¹ Under secs. 807.00 and 806.30, TSUSA, U.S. Tariff Commission.

² Enhanced value abroad.

Note: Section 806.30 applies to articles of metal manufactured in the United States and exported for further processing; sec. 807.00 applies to articles assembled abroad of U.S. product fabricated components.

Source: Foreign Trade Division, U.S. Bureau of the Census, Washington, D.C.

GULF+WESTERN INDUSTRIES, INC.,
Washington, D.C., June 15, 1970.

Re: H.R. 14188

Mr. JOHN M. MARTIN, JR.,
Chief Counsel, Committee on Ways & Means,
Washington, D.C.

DEAR MR. MARTIN: In accordance with the announcement issued by Chairman Mills on May 4, 1970, we wish to express our opposition to H.R. 14188, at least to the extent that the bill would be applicable to all countries.

Gulf+Western Industries, Inc. has a vital interest in the outcome of the Committee's consideration for the reason that the company has substantial investments in the Dominican Republic, unrelated to U.S. imports which would be affected by H.R. 14188. Gulf+Western is attempting to bring stability to that country by providing, among other things, light manufacturing facilities for other persons in an industrial free zone in that country which will provide employment for its citizens and investment opportunities in many new business enterprises. Enactment of H.R. 14188 would drastically curtail the establishment of small enterprises in the free zone.

A repeal of Section 807 of the Tariff Schedules would serve to penalize the less developed countries, especially in the Western Hemisphere, by denying those countries access to the U.S. market. It would penalize both U.S. workers and industry to the extent that U.S. exports of raw materials and semi-finished goods could not be further processed in foreign countries, thereby reducing U.S. exports and curtailing employment of U.S. workers whose jobs are to produce such raw materials or semi-finished goods. Passage of the bill would result in increased prices to the consumer.

Rather than enacting H.R. 14188, the Committee might be well advised to explore methods which would improve the access of the developing countries to not only the U.S. market, but to markets of developed countries in general.

However, if the findings of the Committee are such that some modification of Section 807 of the Tariff Schedules is found to be a necessity, as part of the overall balance of trade problem facing our country, it is submitted that in order to encourage and assist the severely less developed countries in the Western Hemisphere and to keep our long-standing promises to those countries, then the approach as set forth in Section 955(c) of the Internal Revenue Code of 1954 should be adopted. If exports and re-imports to Mexico is a substantial problem in this connection, perhaps it may be necessary to classify Mexico as a developed

country for this purpose. Certainly Mexico, in many respects, is one of the emerging nations which is far ahead in its economic achievements than the Dominican Republic or Haiti, for example.

We feel that passage of H.R. 14188, as it now stands, would be a breach of good faith and of the many promises made by both the executive and legislative branches of government to the less developed countries and would result in long range economic and political repercussions which would be detrimental to the United States. It is recommended that preferential treatment be accorded to the truly less developed countries of the free world rather than discriminatory treatment, as would result from passage of H.R. 14188.

Yours very truly,

VICTOR L. NUTT, *Washington Counsel.*

STATEMENT OF C. E. SPORCK, PRESIDENT, NATIONAL SEMICONDUCTOR CORPORATION

I. SUMMARY OF COMMENTS AND RECOMMENDATIONS

A. Item 807.00 contributes to allowing the company to compete effectively with foreign manufacturers on a world-wide basis and, therefore, stimulates growth in domestic employment and capital investment.

B. The repeal of Item 807.00 would result in the exportation of employment and capital investment which would otherwise take place in the United States.

C. Item 807.00 should be revised so that the value of all American-made goods exported and subsequently imported with value added is duty free regardless of the kind of overseas assembly, fabrication, processing or other manipulation to which the goods have been subjected.

II. THE 807.00 OPERATIONS OF THE COMPANY

National Semiconductor Corporation ("National") manufactures certain solid state electronic components, namely, transistor and integrated circuit devices. These devices, which are part of a broader classification of products known as semiconductors, are principally used to amplify, switch or otherwise control electric current and are utilized in virtually every type of electronic system. Because of minute size, high reliability and decreasing prices, the use of semiconductors, particularly integrated circuits, has greatly expanded and the construction of increasingly more complex electronic systems has been facilitated.

The corporation's *domestic facilities manufacture* the basic devices and ship many of them *abroad for assembly* along with other components of U.S. source. National has two domestic manufacturing facilities. These facilities, located in Santa Clara, California and Danbury, Connecticut encompassed approximately 400 employees in 1968 and a capital asset investment of approximately \$4.3 million as of June 1, 1968. As of December, 1969, these facilities encompassed more than 1,400 employees and a capital asset investment of approximately \$10.8 million. Substantial expansion of the Santa Clara facility is anticipated within the next few years.

National's wholly-owned subsidiary in Singapore, which accounts for approximately $\frac{2}{3}$ of National's 807.00 operations and a capital investment of less than \$2 million, employed approximately 1,000 persons as of December, 1969 (the remainder of National's 807.00 operations are conducted by independent subcontractors).

Item 807.00 has allowed National to offer a pricing structure for its products which is competitive with the pricing structure of foreign manufacturers in the world-wide market place and, thereby, has contributed to the aforementioned growth in National's domestic employment and capital investment. Without the ability to compete effectively on a world-wide basis, National's substantial growth in domestic employment and capital investment would not have occurred.

In addition, the aforementioned growth of National has caused its suppliers to increase their employment and capital investment to service National's needs. In order to produce semiconductor devices, National purchases substantial amounts of material from U.S. sources. During the fiscal year ended May 31, 1969, such purchases amounted to approximately \$3.9 million, and during the fiscal year ended May 31, 1970, such purchases amounted to approximately \$7 million.

During the period 1968-1969, item 807.00 has contributed to allowing National to reduce the prices of many of its products. These price reductions have stimulated growth in sales, which in turn has stimulated growth in National's domestic employment and capital investment. These price reductions have also aided in combating inflation by enabling National's customers (mainly equipment manufacturers) to hold down their costs and, in turn, their prices to the ultimate consumers.

It is clear to National that the benefits of having and using item 807.00 are substantial. Indeed, that provision of law is very important to the continued growth of National's domestic facilities. Item 807.00 is not merely a convenience and certainly not a loop-hole. It has permitted National to allocate its resources in the most economical and competitive way, which, in turn, has accrued to the net advantage of the American worker, producer, and consumer. It has allowed National to compete effectively with foreign competition in the United States and other parts of the world while continuing to utilize the superior skills of American labor for other than the relatively simple and less expensive tasks.

The ability to compete effectively with foreign semiconductor manufacturers on a world-wide basis has permitted the tremendous growth experienced by National as well as the rest of the American semiconductor industry.

III. AFFECT OF ITEM 807.00 REPEAL

How would the repeal of item 807.00 affect National? It would not mean that National would go out of business. National would continue to grow. But it would do so increasingly at the expense of the economy of the U.S. Without item 807.00, National would have to pay full duty on the entirety of articles assembled abroad and, therefore, in order to compete effectively with foreign producers, certain adjustments would be necessary. For example, the cost of materials purchased from overseas suppliers is typically less than the cost of comparable materials purchased from U.S. sources. Thus, absent a compensating duty provision such as item 807.00, National would have to rely heavily on the overseas *manufacture*, as well as *assembly*, of materials and, possibly its products. To compensate for the extra cost imposed by the repeal of item 807.00, there would be an overall contraction of National's domestic operations and a marked shift of personnel and technology to facilities abroad.

What would be some of the consequences of such a contraction in this country? First, National would purchase less of its materials from domestic suppliers and begin to obtain them from foreign sources close to its overseas facilities. The current U.S. suppliers of National would inevitably have less business in the event of item 807.00's repeal. Second, although a substantial work force would continue to be needed in our domestic plants, the number of U.S. production workers would stop increasing. However, additional workers would be hired abroad. The repeal of item 807.00 would mean the exportation of new jobs.

Third, National would establish new *manufacturing*, as opposed to *assembly*, facilities abroad rather than in the United States. Thus, the loss of new jobs would be accompanied by the loss of economic benefits to be derived from new capital investment in this country. This is perhaps less dramatic than the loss of new jobs, but the impact would be felt nevertheless. Fourth, since the repeal of item 807.00 would result in an increase in the foreign material and labor content of National's products and the U.S. material and labor content of these products would be reduced, National's favorable balance of trade would be reduced, if not eliminated.

In National's experience, item 807.00 has aided the company's growth and has allowed National to avail itself of the technological superiority of labor in this country while competing successfully with foreign manufacturers in the U.S. and other markets. Without item 807.00 National's thriving domestic operation may diminish, even though National will continue to fare well as a multinational company.

IV. SUGGESTED REVISION OF ITEM 807.00

Schedule 8 of the Tariff Schedules of the United States contains several provisions that relate to American articles that are advanced or improved abroad. Each of these provisions contains certain limitations that originated from rulings of the Bureau of Customs under the Tariff Act of 1930. As a result, item 807.00 applies only to imports of American-made components which are assem-

bled abroad and cannot be used if those components are changed in form or shape or further fabricated abroad. Another provision of schedule 8; namely, item 806.30, which applies only to imports of the non-precious metals portion of American components processed abroad, requires further processing in the United States.

Viewing these provisions together and disregarding their arbitrary limitations, they appear to rest on one underlying concept. That is, the value of American goods that have been manipulated abroad and now return as an imported product should not be part of the dutiable value of the import. In other words, duty should be paid only on the value that is added abroad.

This is a valid concept. If a product is to be imported, surely it is better that it contain some American-made articles rather than none at all. However small the domestic component, it represents the productive use of American labor and capital and reduces the negative impact that the import has upon our balance of trade and balance of payments.

This corporation therefore suggests that the several provisions in schedule 8 concerning American articles advanced or improved abroad be replaced by a single provision. Subject to the obvious need of the Bureau of Customs to determine what are the American components of an import, this single provision should allow any American-made good to return duty-free, regardless of the kind of assembly, processing, fabrication, or other manipulation to which it has been subjected. If this were permitted by law, domestic manufacturers feeling the impact of foreign competition would have an alternative to closing their domestic plants and investing abroad. They could continue to expand their more advanced production in this country and have the final steps of manufacture take place abroad, if necessary.

Such flexibility has assured the existence of a thriving American semiconductor industry, and may do the same in other industries as well.

V. CONCLUSION

In considering the item 807.00 issue, National's greatest concern is that its repeal would lead to one of two equally undesirable results in those industries concerned. On the one hand, it could lead to a leveling-off of economic activity in this country and the exportation of economic growth. On the other hand, it could lead to even more rigorous efforts to impose import restrictions on foreign products. Either result would be unfortunate and unnecessary as well. Item 807.00 permits National and possibly many other companies to make an increasing contribution to the American economy while competing successfully in the U.S. and other markets. An expansion of item 807.00's fundamental concept along the lines suggested above would give some companies an economic tool that would be in their interest, in the national interest, and attuned to the rigorous demands of world competition.

STATEMENT OF GENERAL TIME CORPORATION

This statement is filed on behalf of the General Time Corporation, an American corporation which manufactures clocks, clock movements, clock timers, industrial timers and equipment, time systems for government use, and ordnance products. All of the Company's manufacturing operations are in the United States. This statement does not comment on H.R. 14870, the "Trade Act of 1969." Rather, it deals specifically with H.R. 14188 which proposes the repeal of Tariff Item 807 under which for many years American products assembled abroad have been allowed to reenter the United States without duty on the value of the American components.

The repeal of Tariff Item 807 would have an acutely detrimental impact on General Time's Precision Products and Parts Division which has 1,500 employees and approximately \$20,000,000 annual sales. This impact would be detrimental not only to the Company's profits, but also to American workers and the United States balance of payments. Thus the presentation of the specific facts relating to the case of the Precision Products and Parts Division is warranted as a cogent example of the disruption which can result from the repeal of Item 807.

The most important products sold by the Precision Products and Parts Division are timer for clock radios, including Digital Electric Timers and Synchro-

nous Electric Timers. In 1969, 26% of the Division's sales were clock radio timers. By 1971, 48% of sales will be clock radio timers. See Appendix I.

An increasing portion of the Division's clock radio timers are sold to customers who ship them overseas for assembly and reimport them duty free under Item 807. The ability to reimport the timers duty free is a major factor in the customer's decision to purchase from General Time rather than from far eastern manufacturers. Synchronous electric timers are the clocks used in most clock radios. In 1968, 47% of the Division's synchronous timers were used in 807 trade. By 1971, 80% of these timers will depend on Item 807. Digital timers, which represent the time with a numeric display rather than with hands and a dial, have recently become popular. Since late 1968, the Company has spent approximately \$400,000 designating a digital timer and tooling-up for production. It is predicted that in 1970, 75% of the Company's digital timers will depend on Item 807; and that by 1971 80% will depend on Item 807. In sum, in 1968 and 1969, 49% and 44% of the Division's clock radio timer sales depended on Item 807. For 1970 and 1971 75% and 80% of timer sales will depend on Item 807. By 1971, 40% of the Division's total business will depend on Item 807.

The increasing dependence of the Division's customers and the Division on Tariff Item 807 is caused by a shifting in the radio manufacturing and assembly business away from the United States to the less developed Far East where lower labor prices make production more economical. In 1968, 38% of the clock radios sold in the United States market were assembled abroad. By 1971, it is predicted that 71% will be assembled abroad. See Appendix II. At this time only one major U.S. manufacturing company and two importing concerns will have any clock radio assembly operations in the United States. The economies of foreign assembly are so great that there is virtually no chance of a movement of assembly operations back to the United States. Even European radio makers (e.g., Grundig) have gone to the Far East to buy radio assemblies. In addition, it should be noted that partial assembly in the United States (for example, installation of clock radio timers after import of the radio) has been found not to be feasible by several major U.S. manufacturers, because of U.S. labor costs and the costs of unpacking, repacking, retesting and reshipping.

Until a few years ago all of the synchronous timers for radios sold in the U.S. were produced in the U.S., with General Time producing about 50% of timers sold in the noncaptive market, and General Electric producing the rest.* To date there have been no Japanese or other foreign synchronous timers entering the U.S. market. We believe that this is due in substantial part to the existence of Item 807. The Japanese do, however, successfully manufacture digital clock radio timers in direct competition with General Time. The prediction is that they will achieve a greater share of the clock radio market through this product. See Appendix II.

At present the U.S. tariff on a timer with a backplate of less than 1.77 inches is \$.52 under Tariff Item 720.02, without any additional *ad valorem* duty. By 1972 this duty will be reduced to \$.37. Under recent Customs Bureau interpretations almost any clock radio timer can be brought within the specifications of Item 720.02.

In the case of radios assembled in the Far East, the \$.37 tariff on foreign timers will be practically equalled for American timers by the cost of shipping, handling, financing and administration which is generally \$.25 to \$.30 per timer. Thus, with these costs, the United States radio manufacturers who buy timers from General Time for use in 807 trade lose most of their tariff advantages.

The repeal of Item 807 would add at least \$.37 to the cost of overseas assembly of an American clock radio timer. With this cost added to shipping costs, General Time would be in a sub-competitive position vis-a-vis Far East manufacturers who can use extremely low-cost labor for all the components in their products. Thus, General Time's customers would turn to the Far East manufacturers, probably buying from them complete clock radio units including timers.

By taking advantage of their lower labor costs and the additional shipping costs, Far Eastern manufacturers would easily be able to drive General Time out of the clock radio timer market for radios assembled in the Far East. With 71% of the clock radios sold in the U.S. market assembled in the Far East by

*The Japanese do, however, produce some of these standard timers for use in their own market; and they are able to do so at competitive factory prices even though their factories have a much smaller volume than U.S. factories.

1971 and 80% of General Time's clock radio timers sold for 807 trade, the repeal of Tariff Item 807 would force General Time to close down its clock radio timer operations and eliminate this product line.*

General Time's Precision Products and Parts Division's manufacturing plant at Gadsden, Alabama would be shut down completely, resulting in the termination of 315 hourly and 35 salary employees and the loss of almost \$2 million annual payroll to the Gadsden community.

The parts manufacturing plant in York, Pennsylvania would also be drastically affected. Sixty percent of this plant's current output is timer parts made for the Gadsden operation. The loss of timer parts production would result in the termination of at least 45 hourly and three salary employees and the loss of \$300,000 in annual payroll to the York area. In addition, the loss of the timer parts production might make it necessary to close the York facility entirely because its operation would be impractical with only the remaining business.

The elimination of the timer business and timer operations in Gadsden and York would eliminate the need for at least 38 salaried employees who work in the Division's Manufacturing, Engineering, Marketing, and Administrative Departments which are located in Davidson, North Carolina. This would result in a payroll reduction to the Davidson area of approximately \$400,000.

The following table presents a summary of the jobs and annual payrolls which would be lost if Item 807 was repealed and the Division was driven out of the clock radio timer business.

	Terminated employees			Annual payroll (in millions)
	Hourly	Salaried	Total	
Gadsden.....	315	35	350	\$2.0
York.....	45	3	48	.3
Davidson.....		38	38	.4
Total.....	360	76	436	2.7

The financial effect of repeal of Tariff Item 807 on General Time and The Precision Products and Parts Division would be just as drastic as the effect on employees.

For the calendar year 1971, the Division is predicting the sale of almost 4 million synchronous and digital timers resulting in sales revenue of approximately \$9,600,000. The predicted pre-tax profit contribution is \$750,000. In addition to the loss of profits, there would be a lost corporate overhead absorption of \$700,000, and the total loss of profits for 1971 would be \$1,450,000.

To the above figures should be added \$24,000 which will be due in 1971 on the lease of the Gadsden plant building, because this building would be very difficult to sublease. Also, any statement of financial loss must take into account the fact that the Precision Products and Parts Division has just invested approximately \$400,000 in designing the new digital timer and tooling up for production, and \$300,000 in tooling and equipment for the new TS20 synchronous timer. With the repeal of Tariff Item 807, this \$700,000 capital investment would be lost.

A summary of the projected calendar year 1971 losses the Division would suffer due to the repeal of Tariff Item 807 is as follows:

Lost profit on timer business.....	\$750,000
Lost corporate service charge absorption.....	700,000
Gadsden building rental.....	24,000
Lost capital investment on TS20 and digital timer.....	700,000
Total	2,174,000

*In addition to the effect of a repeal of Item 807 on General Time, it should be noted that General Electric, the only other domestic clock radio timer maker, would be affected also. It is believed that General Electric sells a substantial number of clock radio timers to customers who depend on Item 807 trade, and the repeal of Item 807 would probably cause General Electric to lose these sales. If General Electric is also forced to abandon the clock radio timer business because of the repeal of Item 807, the entire American clock radio timer industry will have been liquidated.

If the Precision Products and Parts Division ceased making clock radio timers, it is highly probable that all of its former customers would buy their timers from foreign manufacturers. If this happened, the United States would incur a balance of payments loss in 1971 of approximately \$9.6 million, the projected figure for the Division's timer sales in 1971. The balance of payments loss would be more than double that figure if the entire U.S. clock radio timer business goes foreign. Even if domestic manufacturers took up some of the slack, it is certain that General Time would be replaced by foreign manufacturers in the case of the market heretofore dependent on Item 807 trade. General Time projects timer sales for 807 trade in 1971 of \$7.7 million. Thus, the United States would have a balance of payments loss of at least \$7.7 million in 1971 attributable to the loss of the Division's 807 clock radio timer trade.

CONCLUSION

General Time Corporation strongly urges that Tariff Item 807 not be repealed. The repeal of Item 807 would subject American parts assembled overseas to an additional duty or tax. This duty would make the American parts uncompetitive with foreign parts produced closer to the assembly point and at less expense. This, in return, would result in the loss of American profits and jobs and a deterioration in the United States balance of payments.

Specifically, the repeal of Item 807 would drive General Time's Precision Products and Parts Division out of the clock radio timer business, force the closing of its Gadsden, Alabama, plant and possibly of its York, Pennsylvania, plant with the resulting loss of at least 436 jobs, \$2,700,000 in wages, a 1971 loss of profits of \$2,174,000, and a 1971 balance of payments loss of at least \$7,700,000.

Thus, it is clear that the repeal of Item 807 would be detrimental to General Time Corporation and to any industry in a similar position. The repeal would also be detrimental to American workers and their communities and to the United States balance of payments.

General Time Corporation is grateful for the opportunity to submit this statement.

APPENDIX I.—GENERAL TIME SALES DATA

Year	Item	Number of units	Gross receipts	807 sales in units	Gross receipts	Percent of sales in 807 trade
1968	Synchronous electric timers	2,129,000	\$4,703,000	1,039,000	\$2,286,000	49
	Battery operated timers and movements	1,159,000	3,415,000	30,000	135,000	4
	Auto clocks and other industrial	1,272,000	5,667,000			
	Military ordnance	4,486,000	10,456,000			
	Total	9,046,000	24,241,000	1,069,000	2,421,000	10
1969	Synchronous electric timers	2,964,000	6,191,000	1,267,090	2,737,000	44
	Battery operated timers and movements	1,002,000	2,939,000	36,000	117,000	40
	Auto clocks and other industrial	1,232,000	5,700,000			
	Military ordnance	4,132,000	8,641,000			
	Total	9,330,000	23,471,000	1,303,000	2,854,000	12
1970	Digital electric timers ¹	80,000	320,000	57,000	251,000	77
	Synchronous electric timers ¹	3,100,000	6,820,000	2,380,000	5,046,000	74
	Battery operated timers and movements ¹	726,000	2,043,000	64,000	208,000	10
	Digital electric clock movements ¹	20,000	80,000			
	Auto clocks and other industrial ¹	1,400,000	6,500,000			
	Military ordnance ²	470,000	2,418,000			
	Total	5,796,000	18,181,000	2,501,000	5,505,000	31
1971	Digital electric timers ³	1,000,000	3,700,000	800,000	2,960,000	80
	Synchronous timers ³	2,800,000	5,936,000	2,240,000	4,704,000	80
	Battery operated timers and movements	501,000	1,420,000	75,000	244,000	16
	Digital electric clock movements	150,000	565,000			
	Auto clocks and other industrial	1,740,000	8,292,000			
	Total	6,491,000	19,953,000	3,225,000	7,908,000	40

¹ Projected from 6 months' actual sales.

² Based on orders already in the books; 1970 will be the last year for military ordnance.

³ Based on the assumption that 80 percent of sales will be in 807 trade. The 1970 outlook is for 75 percent of sales to be in 807 trade, and in 1971 2 additional major U.S. manufacturers will be producing overseas with the changeover coming in late 1970.

APPENDIX II.—THE U.S. CLOCK RADIO MARKET¹

Year	U.S. sales	Assembled in United States ²	Assembled abroad	Percent assembled abroad	U.S. clocks used	Percent U.S. clocks used	Japanese digital timers used
1967.....	5,861,000	4,343,000	1,418,000	24	5,861,000	100	0
1968.....	6,376,000	3,666,000	2,469,617	38	6,376,000	100	0
1969.....	8,802,259	3,072,857	5,428,402	62	7,800,000	89	1,000,000
1970 (estimated).....	9,400,000	3,100,000	6,000,000	64	7,400,000	79	2,000,000
1971 (estimated).....	9,700,000	2,400,000	6,900,000	71	7,000,000	72	2,400,000

¹ These figures, all stated in units, are based on published data from the Electronic Industries Association with the addition of figures on certain other companies which are not included in the EIA figures because they are not U.S. manufacturers.

² Excludes data regarding assemblies in Puerto Rico.

³ 2,964,000, or approximately 37 percent, of these clocks were made by General Time. The rest were made by General Electric. All of the timers made in the United States in 1969 were synchronous timers and not digital timers.

STATEMENT OF OSCAR PIEPER, NESS INDUSTRIES, INCORPORATED

SUMMARY

Ness Industries believes that the repeal of item 807 would have an adverse effect on the ability of small electronics companies to compete against the larger corporations in the industry, who would simply automate or transfer more production abroad. Small companies lack sufficient capital to do either.

As a result, the competitive environment that prevails in the industry would be lessened, resulting in a

- slowdown in new product development
- slowdown in industry growth
- loss of world leadership in electronics
- unfavorable balance of trade
- slowdown in the growth of domestic employment

Consequently, we recommend that item 807 be retained.

Mr. Chairman and Members of the Committee on Ways and Means, I am Oscar Pieper. I appear on behalf of Ness Industries. It is our belief that the repeal of item 807 would be harmful to competition within the United States electronics industry, to our balance of trade, and to domestic employment.

INTRODUCTION

Mr. Chairman, you have already heard testimony from a number of large corporations as to the probable effect the repeal of these items would have on their operations. I am speaking today on behalf of small firms, especially new start-up companies, in the electronics industry. For the last several years, Ness Industries has been working closely with these small companies, helping them begin operations and compete against the larger, established companies in their industry. We provide these new companies with initial funding, management counsel, marketing assistance, and off-shore assembly at our facilities in Hong Kong and Djakarta, Indonesia. From this experience, we have gained considerable insight into the problems small companies face in competing against large corporations. As a result, we feel we are qualified to testify as to the probable effect the repeal of item 807 would have on them.

IMPORTANCE OF SMALL COMPANIES

I think most people would agree that vigorous competition has been responsible for much of the strength of this country, and for the unprecedented growth of its economy. In this free enterprise system of ours, and especially in the electronics industry, small companies are a vital competitive force. Their existence, indeed, even the possibility that they may be formed, fosters competition. To get into business and be successful, they generally pursue market areas the larger companies have overlooked, or offer a product that fills the customers' needs more precisely. Thus, they keep the large companies on their toes; the large companies must better their products and develop new ones if they are to protect their market from invasion by hungry new firms.

The history of the semiconductor industry in this country is a prime example.

It is a history of new companies, spin-offs from the old, developing new products and creating new markets. In the past year and a half alone, one industry giant has given birth to more than a dozen new companies intent on pursuing new technologies and making new products that meet the needs of a particular market segment. In so doing, they have kept American technology number one, and created literally thousands of new jobs in this country.

CHANGING CONDITIONS IN ELECTRONICS

This has been the story of the past, and it will be the story of the future. But the future will bring some changes to the industry. In the past decade in the electronics industry, the emphasis has been on technological innovation, fostered to a large extent by the Apollo space program. New technologies had to be developed if the United States was to meet President Kennedy's goal of putting a man on the moon by 1970.

Today, we are beginning to see a change in the nature and direction of the industry—a change from technological innovation to technological assimilation. The electronics industry made outstanding progress in the Apollo program, notably in solid-state technology and computers. Now that the pioneering work has been done, the industry must translate this progress into products for industry, and for the home.

We are already beginning to see some of this in the wide-spread appearance of mini-computers for industry. Most of these have been developed, by the way, by small new companies intent on capturing a particular market segment which had been overlooked by such industry giants as IBM, Control Data, and General Electric. Electronic calculators represent another new and rapidly expanding area. Within the decade, they may well become as commonplace as the portable typewriter, sold to high school and college students by the millions.

EMPHASIS ON LOWER COSTS

But these new areas for expansion are not able to pay the premium that was necessary for breakthroughs in the space program. These new markets, and consequently the continued rapid growth of the electronics industry, can be reached only if costs continue to drop as they have in the past with transistors and the first integrated circuits.

As the price of these items came down, industrial manufacturers were able to incorporate them first in their regular products, and later in special products aimed at markets which previously had been excluded because of price. The computer industry is a clear example of the creation of new markets, and new jobs, through reductions in cost.

Only a few short years ago, computers were a luxury item, a status symbol that only the large corporations and banks were able to afford. But, as the price of integrated circuits dropped, it became possible to offer less expensive computers to smaller companies. Thus, new jobs were created, both in the semiconductor industry, and the computer industry, not to mention a fantastic demand for computer operators and programmers.

The trend has continued, resulting in the spread of mini-computers that I referred to a moment ago. Further drops in cost will bring about the same results on a much larger scale.

In fact, the growth of the industry is dependent on such an expansion of market through lower costs. Smaller companies will address the consumer market with a home information center only if they can produce one the home-owner can afford to buy. Without a drop in cost, the much-heralded electronics revolution may fizzle before it has reached its full potential. New markets will not be reached, new companies not formed, and thousands of new jobs not created.

IMPORTANCE OF OFF-SHORE ASSEMBLY

In the past, these cost savings were realized by transferring a small portion of the assembly process to off-shore facilities. In the semiconductor industry, for example, the various piece parts of the transistor or integrated circuit were all manufactured in the United States: the wafer, the wire leads, and the package. All engineering stayed in the United States, too, as did final testing. Only the hand assembly of these parts went to off-shore facilities. The result was a dramatic drop in cost, and consequently in selling price, from \$100 for some early integrated circuits, to less than \$1.00 today. This substantial drop in selling price opened the door to new markets that were previously excluded

by price, and gave birth to the rapid growth not just of the semiconductor industry, but the computer and other related industries as well. Thus, thousands of jobs were created in this country, and a trade surplus gained, through the transfer of the simple assembly portion of manufacturing to off-shore facilities.

In the coming decade, substantial cost savings must again be realized, but this time in the production of products incorporating solid-state devices. The growth of the industry is just beginning, but without cost reductions, new markets will not be opened up and that growth will not continue.

REPEAL OF ITEM 807

If Item 807 is repealed, the historic avenue for savings and growth will be partially closed.

For the larger corporations, this will be merely a passing inconvenience, circumvented either through the transfer of a much larger portion of the manufacturing process abroad, or through automation on a very large scale at home. In either case, of course, domestic employment would suffer.

But the smaller companies do not have these alternatives. Full manufacturing facilities abroad, or automation at home, both require enormous capital outlays, outlays which the small company that creates new products and a healthy competitive atmosphere, cannot afford to make.

The small company must have the option provided by item 807 to compete against established products in a cost-conscious market. If he is able to have a portion of his assembly operation performed off-shore, he can become a viable, cost-competitive supplier of an improved product. He will reach maturity, and have a chance to develop still other products. In so doing, of course, he fosters industry growth and creates new jobs, both in his own company, and in the others who will use his product to develop their own new products and new markets.

If he cannot turn to off-shore assembly, his costs will be too high to address the new markets, and he will fail. In fact, he might realize the futility of trying and never begin. The pace of industry development would then be left in the hands of the large corporations who can automate, or transfer production abroad, and who have a vested interest in the continued acceptance of their established products. Even when new and improved products are clearly feasible, they may be ignored because of the high cost of changing automated assembly lines.

I might add that this failure to react to market needs is fairly typical of capital-intensive industries dominated by a few large corporations. Look at Detroit: surely, if the automobile industry were not so capital-intensive, new companies would have jumped in and we would have seen real progress in combating pollution. Nor would we have had to wait so long for an American alternative to the Volkswagon. This is precisely what would become of the electronics industry if companies had to automate.

SUMMARY AND CONCLUSIONS

Gentlemen, the growth of the electronics industry has been tremendous in the past decade. Domestic employment in companies manufacturing electronic components has grown significantly, not to mention employment in companies which have expanded by using electronic components in new products aimed at new markets. This growth, and the creation of jobs at home, has come about because companies were able to reduce their costs through off-shore assembly, leading to increased usage of electronic components.

If item 807 is repealed the continued rapid growth of the electronics industry would be jeopardized. As we have seen, competition from smaller firms has been responsible for much of the industry's growth. They have spurred product development, lowered costs, tapped new markets, and maintained this country's leadership in electronics.

If these items are repealed, the small company will no longer be able to compete. The new markets will not be tapped; industry growth will stall. There will be fewer new jobs, and possibly a loss of leadership in product development. Such a shift would affect our balance of trade. And if fewer American products are sold abroad, there will be fewer jobs at home.

In short, the growth of an industry is at stake. If these items are repealed, potential markets opened by new products—at home and abroad—will be lost . . . a loss that will be felt in leadership, in trade, in dollars and in jobs.

MAESTRO IMPORT INDUSTRIES, INC.,
East Rochester, N.Y., May 13, 1970.

Mr. JOHN M. MARTIN, Jr.,
*Chief Counsel, Committee on Way and Means,
 1102 Longworth House Office Building, Washington, D.C.*

DEAR MR. MARTIN: It would be my desire to appear as a witness before the Committee with a presentation on foreign trade for the public hearings on tariff and trade proposals, beginning on Monday, May 18, 1970. However, I will be leaving on a scheduled business trip for Colombia and Ecuador, on Sunday, May 17, and will not be returning to New York until Thursday, May 28. For this reason I am filing my written statement for consideration for the record of the hearing.

Following the requested format given in the Committee's press release, dated May 4, 1970, the desired information is submitted as follows:

1. Donald H. Alder, President & Chief Executive Officer Maestro International Industries, Inc. (formerly Maestro Import Industries, Inc.) subsidiary of C. H. Stuart & Co., Inc. (Newark, New York 14445) 20 Ontario Street, P.O. Box 307, East Rochester, New York 14445.

2. Representing capacity as above and as a company member of The Council of The Americas, Inc. (formerly The Council for Latin America, Inc.), The National Foreign Trade Council, Inc., the International Platform Association, and the World Trade Committee of the Rochester (N.Y.) Chamber of Commerce.

3. Presentation within area and support of President Nixon's proposed Trade Act of 1969, specifically: that the President be given authority to make modest reductions in U.S. tariff that individual circumstances from time to time require; urging private interest to work closely with the government in seeking the removal of trade barriers; recommending specific authorization for the funding of U.S. participation in GATT. Presentation also bears upon H.R. 14188 (treatment of articles assembled abroad), etc., as well as proposals to stimulate exports.

4. Time desired sufficient for presentation of summary of supporting comments and recommendations given below.

5. Recommending removal of all U.S. tariffs on fine, traditional wooden case goods furniture and upholstered and wooden frame furniture (where value of textile material used in upholstering represents less than 40% of the total value of piece of upholstered furniture) manufactured and assembled by U.S. subsidiary companies (at least 75% U.S. owned) in Latin America for export to the United States, utilizing at least 90% U.S. made furniture manufacturing machinery and plant equipment.

Following the above qualifications, Maestro inaugurated a new modern, furniture subsidiary manufacturing plant in Quito, Ecuador (Industrias Maestro, S.A.) in February of this year for the express purpose of producing and assembling fine, high quality traditional, solid wood furniture for export to the U.S.; for final assembly, warehousing and distribution by Maestro in the U.S. The dedication plaque of the plant in Quito gave recognition to the handcrafting skills and pride-of-workmanship of the maestros, artisans and wood workers of Ecuador. Maestro is currently planning its second majority owned subsidiary plant in Mexico for the latter part of this year.

The subsidiary company in Ecuador is also in the process of obtaining large hardwood lumber land concessions from the Government of Ecuador for its own use and for export to other U.S. furniture manufacturers, who are finding that we are running out of good hardwoods in the U.S.

The Hon. Galo Plaza, Secretary General of the Organization of American States (Pan American Union) in Washington, and a former president of Ecuador, in a letter to the founders of Maestro, indicated the following: "This is precisely the type of multinational industrial investment that Latin America wishes and needs. Industrias Maestro will use the national raw materials and will employ Ecuadorean personnel in all levels: from administrative to production. Local capital also has its participation in the enterprise—and you have brought from the United States capital and know how. It will be a positive contribution to the Ecuadorean effort to diversify its exports."

The presentation and recording of this recommendation and the supporting comments for consideration by the Committee would be appreciated.

Sincerely,

DONALD H. ALDER, *President.*

FORM-O-UTH Co.,
Gardina, Calif., June 19, 1970.

COMMITTEE ON WAYS AND MEANS
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C.

GENTLEMEN: This written document is written on behalf of the Form-O-Uth Co. of Gardena, California and its subsidiary, the Rey-Mex Bra, S.A., Reynosa, Tamaulipas, Mexico. It can well be construed as being on behalf of the business men and constituents of all border cities, and of all business firms of border towns on either side of the border.

It is the contention here that the arguments against Articles 806.30 and 807.00 of the Tariff Schedules of the United States (TSUS) as raised by the labor unions in the U.S. are not valid in that they can look across a border and see a *small quantity* of products assembled *in part* by foreign labor but of *U.S. materials and components*; but cannot peer across the oceans and see *large quantities* of products assembled *wholly* by foreign labor and of *foreign made materials and components*.

It is our contention that this is extremely short sighted. For we speak here only of U.S. materials sent out "in bond" for partial assembly outside the U.S. And further, in the case of Mexico, in varying degrees but without exception the great bulk of the dollars so expended come back across the border to be spent in the U.S. Where then is the logic in trying to curtail this program while ignoring the great mass of products assembled wholly by foreign labor and consisting wholly of foreign material?

A considered evaluation based on sound reasoning must lead to the inevitable conclusion that this program should be fostered and thus help to reduce the current use of foreign labor and material, and to reduce the flow of dollars from U.S.

This is only part of our reasoning. There are many.

Attached as Exhibit A is a map of the United States-Mexico border, which shows the relative location of McAllen, Texas, and Reynosa, Tamaulipas, which is our primary concern, but which is only part of the entire border consisting of twin cities from the ocean to the gulf. This entire border supports the retention of item 806.30 and 807.00 of TSUS.

There are many reasons for this support, but the basic reasons are: (1) The development of industry in the McAllen-Reynosa area of Texas, (2) The further development of a "good-neighbor" atmosphere between the United States and Mexico, and (3) The strengthening of the bond between the United States and United States producers who must rely on the integrity and reliability of the laws promulgated by their lawmakers.

The Form-O-Uth Co. has not hitherto considered to any great extent the establishing of a factory in the Far East to make goods of foreign material and with foreign labor. Surveys were made in the Orient. But faced with the frightening influx of foreign goods and competition, and with the majority of the larger U.S. manufacturers of brassiers establishing factories offshore, it had no alternative but to do likewise, or for the first time in its more than 30 years of existence, to suffer a decline in business.

The Form-O-Uth Co. elected to turn to our friend and neighbor to the south and there make every sincere effort to combat foreign competition and maintain its place in the sun. This it did at the beginning of 1970.

Your attention is invited to attached Exhibit C which shows 3,700,000 dozens of brassieres brought into the United States in 1968. Of this Mexico produced 49,000 dozens, or 1.3%. Is this competition to be attacked? Or should it not be fostered? 80% of these imports were from the Far East.

Of course of primary concern to both U.S. producers and the labor market of the U.S. as represented by the labor unions is *jobs*. We do not dispute that. Neither could the Form-O-Uth Co., in all good conscience, oppose the restriction of *all* imports of brassieres, in order to protect U.S. labor if such protection were indicated. But such is not the case. It is rather a narrow minded and misguided attempt, and in effect a punitive measure, directed at our friend and neighbor—Mexico. In no way does it affect the great bulk of imports as indicated on Schedule C.

Are we then to foster imports made wholly of foreign material and entirely of foreign labor from countries of questionable friendship and who avidly seek our dollars? Or should we not substitute for this, at least in part, trade with our neighbor of a product with U.S. material and part U.S. labor, and who eagerly cross the border and leave their pesos in U.S. cash registers?

Not only would U.S. border cities benefit from U.S. industry across the border in Mexico, but also from the twin plant concept of facilities on either side of the border to supplement each other. Such is the intent of Form-O-Uth. We can put people in gainful occupations on either side of the border. The obvious alternative stands crystal clear—the purchase of brassieres from the Far East.

Thus, we are brought to the question of the extension of the "good neighbor" policy between Mexico and the United States. Again U.S. labor has played a great part in the successful application of items 806.30 and 807.00. Without the U.S. labor fabricating the machinery and raw materials used in the plants in Mexico, there could be no operation to utilize the particular items of TSUS. Would the labor forces in the U.S. exert their weight to dry up the manufacture of this machinery and material? Particularly, if such action resulted in further importation from the Far East—without benefit of U.S. made machinery and material?

It is interesting at this juncture to notice that the U.S. Bureau of the Census reports that the imports from Mexico in 1968 under Article 807.00 amounted to only 5.1% of the total dollar volume of imports into the U.S. from all foreign countries.

Of this amount 22% of the dollar value from Mexico under this section was U.S. component value. Only 0.2% of the value was added in Mexico. Does this not clearly spell out that if we are to protect U.S. labor, these items must be retained? Attached as Exhibit B is a breakdown of these imports.

Finally, it must be urged that the conscience of the United States is at stake in the suspension of items 806.30 and 807.00. In reliance upon the TSUS the Mexican Government in 1965 began its Border Industrialization Program. Encouraged by Mexico and approved by the U.S. Government, American businessmen by 1969 had plant investments in Mexico valued at more than \$200,000,000. Unless we businessmen can rely upon our own government, to whom can we now turn?

The labor forces that make the machinery and material used by business in Mexico should join forces to insist upon the United States maintaining its responsibility, integrity, and reliability toward them—and toward our *good friend and neighbor*—Mexico.

CALVIN FRASER, *President.*

Exhibit A



United States - Mexico Border

EXHIBIT B.—MEXICO CONTRIBUTES ONLY NOMINALLY TO U.S. IMPORTS UNDER SECS. 807.00 AND 806.30 OF THE U.S. TARIFF SCHEDULES

	Under sec. 807.00			Sec. 806.30 1968 approximate
	1966	1967	1968	
Total U.S. imports: ¹				
Total value.....	\$889, 800, 890	\$931, 705, 926	\$1, 431, 972, 671	\$122, 000, 000
U.S. component value.....	113, 272, 063	146, 659, 801	225, 743, 422	65, 000, 000
Value added ²	776, 528, 827	785, 046, 125	1, 206, 229, 249	57, 000, 000
From Mexico:				
Total value.....	7, 045, 495	19, 306, 985	73, 419, 032	1, 200, 000
U.S. component value.....	3, 618, 820	12, 302, 807	49, 670, 705	800, 000
Value added.....	3, 426, 675	7, 004, 178	23, 748, 327	400, 000
Mexico as a percentage of total U.S. imports:				
Total value.....	0.8	2.1	5.1	1
U.S. component value.....	3.2	8.4	22.0	1
Value added.....	.4	.8	.2	1

¹ Under secs. 807.00 and 806.30, TSUSA, U.S. Tariff Commission.

² Enhanced value abroad.

Note: Sec. 806.30 applies to articles of metal manufactured in the United States and exported for further processing; sec. 807.00 applies to articles assembled abroad of U.S.-product fabricated components.

Source: Foreign Trade Division, U.S. Bureau of the Census, Washington, D.C.

EXHIBIT C.—IMPORTS OF BRASSIERES, 1967-68
[Brassieres only—No girdles or other intimate apparel]

	Dozens, 1967	Dozens, 1968	Value, 1967	Value, 1968
Philippines.....	1, 523, 228	1, 940, 945	\$6, 394, 518	\$8, 235, 551
Hong Kong.....	764, 460	965, 115	1, 998, 920	3, 093, 485
Jamaica.....	418, 827	478, 422	2, 920, 689	3, 327, 562
Honduras.....	16, 764	100, 054	74, 629	416, 274
Trinidad.....	58, 816	73, 828	352, 005	479, 954
Mexico.....	26, 655	49, 225	207, 826	510, 718
Portugal.....	10, 734	34, 890	34, 890	125, 587
Costa Rica.....	13, 864	20, 929	84, 915	138, 646
China.....	0	13, 712	0	47, 809
Japan.....	2, 072	10, 623	11, 313	26, 571
United Kingdom.....	12	4, 317	464	38, 398
Barbados.....	0	3, 720	0	27, 289
British Honduras.....	0	3, 413	0	14, 112
Colombia.....	0	2, 315	0	15, 323
West Germany.....	3, 916	4, 150	90, 057	63, 971
Spain.....	0	1, 550	0	20, 220
Pakistan.....	0	1, 320	0	7, 484
El Salvador.....	0	906	0	6, 532
Haiti.....	0	424	0	2, 600
All others.....	20, 717	3, 277	299, 607	109, 596
Total.....	2, 860, 065	3, 713, 135	12, 469, 833	16, 707, 382

Note: Imports from Mexico amounted to 0.93 of 1 percent of total imports in 1967 and 1.3 percent of total in 1968.

STATEMENT OF KURT SCHAFER, VICE PRESIDENT-ADMINISTRATION,
BOSS MANUFACTURING CO.

Boss Manufacturing Company, with Corporate Offices in Kewanee, Illinois, manufactures work, casual, drivers, welder, garden, fishing, semidress, leather and other types of gloves for the industrial and consumer market. Raw material used in the manufacturing of these gloves includes cotton, jersey and leather materials. Boss Manufacturing Company started business in 1893 and now employs approximately 1,700 people and had sales of \$20,317,126 in the past fiscal year. A majority of these employees are women who are engaged in the sewing and assembling of the product. A large majority of these women are married and produce a second income for the family formation. A key requisite of our

industry is, therefore, an adequate supply of female labor to produce a finished product.

As a manufacturer and marketer of our product, we have been faced with the question of the import situation in the glove field. The importer appears to have been able to undersell like styles of product. In order to meet this competition, we concluded that a pilot plant operation under the Border Program in Mexico might be feasible. In order to assemble our product in Mexico, it was necessary to add a facility in El Paso, Texas to cut leather. We employ fifty-five sewers in Juarez and we employ thirty-five cutters in El Paso, Texas. These people are additions to the payroll and are not replacements for other employees. The operations were started in November, 1968 and have proven successful in terms of product, quality and acceptance in the market place. Further, the raw materials used are American made products.

Our relations with Mexican employees, professional and government people have been and continue to be good. Although a number of our cost factors have increased due to bonding requirements, wage and benefit increases, customs duties, distribution and so on, there appears to be overall constructive economic contribution.

It has been with a good deal of satisfaction that we have had the opportunity to employ people formerly unable to obtain work due to a lack of economic development. If, in some small manner, we have contributed to the economic well-being of a neighbor, who shares a common border, we are pleased. We have also been able to add a minimum of employees and contribute to the economic well-being of American citizens as well. Our American facilities have had growth. Furthermore, by so doing, we are in a much better position to protect our present manufacturing facilities and the continued employment of employees at these facilities. It has also removed the need to consider the importation of like gloves from foreign manufacturers in other parts of the world.

We hope to continue to be a manufacturer and marketer of our own products and it is through the medium of Sections, such as 806 and 807 which provide us with an opportunity to compete against Far East imports, that we can successfully do this.

STATEMENT OF JOHN S. VOORHEES, COUNSEL, PACIFIC CAR AND FOUNDRY COMPANY

In its Press Release of May 4, 1970, the Committee on Ways and Means announced that during the course of its hearings on tariff and trade proposals, it would consider H.R. 14188, a bill "to amend the Tariff Schedules of the United States to repeal the special tariff treatment accorded to article assembled abroad with components produced in the United States."

As the Committee is aware, the Tariff Commission has recently concluded extensive hearings upon particular provisions of the Tariff Schedules. It did so, pursuant to a request made by President Nixon in August 1969.

The Commission's study has been extensive involving as it has, not only public hearings but perhaps unparalleled requests upon American industry and others interested to supply economic data respect to its use of Item 807.00.

With its final report due to the President on August 31, 1970, the Commission is currently engaged in the task of evaluating the massive data which it has thus far collected. Because of the complexities of the economic considerations involved, and the time and expense represented by this investigation to date, we feel that your Committee's most appropriate course would be deferral of final action on H.R. 14188 pending completion of the Tariff Commission's study and action by President Nixon.

Should your Committee desire to take some specific action on H.R. 14188 at this time, then we respectfully urge its rejection.

Pacific Car and Foundry Company of Bellevue, Washington, manufactures a series of mechanical and hydraulic winches and rotoversals in conjunction with its wholly-owned subsidiary, Gearmatic Co., Ltd. of North Surry, B.C., Canada. These assemblies are then sold in Canada or imported into the United States under Item 807.00 for sale to customers in this country.

When imported into the United States, the above-mentioned products are assessed duty in accordance with the scheduled rate for Item 664.10, which includes:

Elevators, hoists, winches, cranes, jacks, pulley tackle, belt conveyors, and

other lifting, handling, loading, or unloading machinery, and conveyors, all the foregoing and parts thereof not provided for in item 664.05. . . .

Applicable duty rates in 1968 and 1969 were 9 per cent and 8 per cent, respectively, and are 7 per cent in 1970.

Based in substantial part upon the duty treatment accorded to U.S. fabricated components which are assembled abroad, Pacific Car and Foundry purchases a variety of components of the above-mentioned winches and rotoversals in the United States for incorporation into these products by its subsidiary, Gearmatic.

U.S. manufactured components assembled in Canada vary depending upon the particular model and end product involved, and include ring gears and pistons, drum shafts, cartridge assemblies, or motor assemblies.

Exports of winches and rotoversals to the U.S. from our Canadian subsidiary which enter this country under Item 807.00 are substantial in both numbers and value, as is illustrated by the following table containing data for 1968 and 1969.

Model number	Units	Dollar value of U.S. components per unit (average)	Dollar value of U.S. components	Value of U.S. sales of articles imported under item 807.00
1968:				
6.....	168	\$66	\$11,088	\$108,175
11.....	482	159	76,638	415,128
22.....	470	215	101,050	687,682
23.....	119	144	17,136	202,874
106-406.....	4	69	276	2,520
11-411.....	38	164	6,232	29,141
122-422.....	5	225	1,125	2,136
123-423.....	7	160	1,120	7,364
9.....	287	45	12,987	182,518
19.....	434	51	22,091	489,924
Total.....	2,014		249,743	2,127,462
1969:				
6.....	265	66	18,810	184,503
11.....	893	159	141,987	847,925
22.....	795	215	170,925	1,231,359
23.....	422	144	60,768	807,266
106-406.....	17	69	1,173	10,384
11-411.....	86	164	14,104	67,312
122-422.....	16	225	3,600	17,291
123-423.....	97	160	15,520	130,302
9.....	326	45	16,380	242,995
19.....	727	51	37,004	909,192
Total.....	3,680		480,271	4,448,529

Inasmuch as purchases of their products are made f.o.b. British Columbia, plus delivery charges, customs brokerage, and actual duty imposed, the adverse impact of repeal of Item 807.00 upon the U.S. purchasers would be substantial.

In 1968, for example, the duty rate of 9 percent, if applied upon the U.S. component value as well as the value added in Canada, would have resulted in an increased cost to the U.S. consumer of \$20,500. By 1969, in spite of a duty rate reduction, that additional cost would have risen to nearly \$38,500.

Pacific Car and Foundry utilization of its Gearmatic subsidiary for the assembly of these particular winches, combined with the favorable tariff treatment for their U.S. component content, enables this company to produce a product of superior performance characteristics and quality yet at a competitive price. Any increase in duty resulting from a change in the tariff schedules would be borne directly and completely by the U.S. purchaser, unless cost reductions could be otherwise effected.

Repeal of Item 807.00 would remove the incentive for this company to purchase U.S. components for use in these products including the strong likelihood that such repeal would force the seeking of lower cost sources of components to minimize competitive consequences of marketing higher priced end products. Sources would most likely be foreign manufacturers.

The most outspoken opponents of Item 807.00 reason that termination of the current duty treatment would produce increased employment opportunities in

the U.S. by forcing users of multiple plants to conduct their assembly operations within this country's borders. In Pacific Car's case, this assertion is economically untenable. On the contrary, repeal would have the opposite effect of driving component manufacturing and purchase overseas, thus decreasing domestic employment.

In this regard, it should be noted that the \$4.5 million in Gearmatic exports to U.S. purchasers under Item 807.00 represented 50 per cent of that company's total sales by value in 1969. Under these circumstances, a search for an overseas source for components sufficiently less expensive to offset the increased duties resulting from repeal of Item 807.00 would be the only feasible course of action available.

Such a step would be taken only with regret, inasmuch as the present practice of utilizing U.S. manufactured components not only facilitates quality control, thus insuring our customers of superior products, but also provides employment for American laborers.

The President's request to the Tariff Commission, in which he initiated its investigation into the use of Item 807.00, specifically called for an evaluation of the impact of its repeal upon the U.S. balance of payments position. We are confident that your Committee is equally interested in the implications of H.R. 14188 upon this important trade consideration. In this regard, to the extent that Pacific Car would be forced to resort to foreign manufactured components as replacements for those currently manufactured in this country, the U.S. balance of payments position would be adversely affected.

These effects would not only be seen in reduced use of U.S. components in winches sold abroad, but also in the substitution of foreign manufactured components in units sold in the United States.

While the amounts involved in the U.S. components purchased by Pacific Car are small in the context of this country's overall trade picture, they are of critical importance of that company and its suppliers. Furthermore, to the extent that its situation is representative, the adverse effects of repeal of Item 807.00 upon the already unhealthy balance of payments position of the United States could be substantial.

Contrary to the position taken by some who oppose Item 807.00, it represents a consistent recognition within the Tariff Schedules of the desire of Congress to exempt from duty the unmistakable and identifiable product of U.S. manufacturers. In this connection, reference is made to other items in the Tariff Schedules reflecting that same objective, including TSUS Items 800.00, 801.00, 802.10, 802.20, 802.30, 805.00, 806.10, 806.20, and 806.30.

The Congressional intent of the Tariff Act as clearly enunciated in the case of *Denike v. United States* (5. Ct. Cust. Appls. 364, T.D. 34553) would, at this late date, make repeal of Item 807.00 both anomolous and unfair. The court in that case said :

Having in mind the purpose of Congress to favor goods the growth, produce, or manufacture of the United States, we think that merchandise imported into the country made up in part of American goods entitled to free entry and in part of goods not entitled to free entry should not be assessed for duty as entireties if the components of the importation are in fact distinct articles and so distinguished one from the other that their several dutiable quantities, weights, measures, or values may be correctly ascertained.

By its terms, Item 807.00 is only applicable in situations consistent with the above-stated Congressional objectives. It provides for a partial exemption from duty for :

Articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating, and painting.

Because repeal of Item 807.00 would adversely affect the Pacific Car and Foundry Company competitively, and would discourage its continued or further use of U.S. components in winch assemblies, *without providing any of the benefits* which its detractors claim would result from its repeal, that company strongly urges that this provision of the Tariff Schedules be retained.

This view is also consistent with Congressional intent reflected in the Tariff Act, U.S. trade policy in general, as well as the best interests of both U.S. industry and labor.

For these reasons, H.R. 14188 should be rejected by the Committee.

STATEMENT OF S. RICHARD SHOSTAK, LOS ANGELES, CALIF.

UNITED STATES TEXTILE ARTICLES ASSEMBLED ABROAD SHOULD BE EXCEPTED FROM QUOTAS

The Mills Bill (H.R. 16920) and the other textile quota bills now pending before Congress are intended to foster the maintenance and expansion of the United States textile industry by placing import quotas on foreign textiles.

Effect of Textile Quota on Assembly of U.S. Textile Articles Abroad

If any of these quota bills is enacted in its present form, however, it is very likely that it will have an unintended effect which will not be adverse to the United States textile industry, but will also deal a severe blow to the relations of the United States with the other nations in the Western Hemisphere.

If the precedent set by interpretation of the Long Term Cotton Arrangement is followed, textile articles which are wholly of United States fabric which has been cut into components and sent abroad for assembly by sewing, will be treated as foreign articles for quota purposes. Because the only foreign involvement in the manufacture of these goods is in their final sewing, it seems incongruous that they should be regarded as foreign, but to the consternation of many, as evidenced by Exhibit 1, they have been so regarded. A similar holding that all textile articles assembled abroad come within quota will effectively close nearly all assembly operations in textiles, because 1967-68 activities were but a relatively small part of present activities. This will result in the loss of millions of dollars to the U.S. textile industry.

Origin and scope of Assembly operations in textiles

In 1963, Congress provided in Item 807.00 of the Tariff Schedules for a duty-free allowance for the value of United States goods which were exported for assembly and returned to the United States after being assembled. With this encouragement from Congress and with a shortage of available assemblers in the United States, numerous garment manufacturers in all parts of the United States, including many having large operations in the South, turned their attention to other parts of the Western Hemisphere and exerted considerable efforts to set up assembly operations. As shown in Exhibit 2, by 1969, the total value of assembled United States textile articles imported had risen to \$40.5 Million, of which approximately 80% consisted of United States fabric in the form of components. Of this total, when Philippine-assembled gloves valued at \$5,000,000 are excluded, 95% was done in the Western Hemisphere, with slightly over 50% being done in Mexico.

Benefits resulting from assembly of textile articles abroad

To the textile industry, assembly abroad had made it possible for :

1. the garment manufacturers to expand their production ;
2. the fabric manufacturers to produce and sell more fabric ; and
3. the consumers in the United States to purchase lower-priced goods made of United States fabric, rather than low-priced wholly-foreign goods.

These benefits should be preserved.

To the depressed economic areas along the United States side of the Mexican Border, these operations have brought new prosperity and growth. These activities have supplied the impetus for "twin plant operations" in Texas, Arizona, and California, which have resulted in the creation of new factories and new jobs. In addition, fully 70% of all wages paid for assembly in Mexico is ultimately spent in the United States.

To the depressed border areas of Mexico and in the other Latin American and Caribbean nations where assembly operations have been set up in textile articles, the textile operations under Item 807.00 have provided employment and the economic and social growth which result therefrom. This has also resulted in a much better and closer relationship between the peoples and governments of these nations with the United States. Anything that would tend to harm these operations would necessarily be a great setback to the present good relations.

Recommended action: Exception of assembled United States textile articles from quota

It is clear that all of these benefits will be lost to all of these groups if a textile quota is enacted in the present form of the Mills Bill. However, all of the benefits described above can be retained if Congress takes the logical step of excepting assembled United States textile articles from the scope and effect of any textile

quota which is approved for enactment. The best interests of the United States textile industry and of our good neighbors in the Western Hemisphere will be best protected by amending the last clause of Sec. 106(a) of H.R. 16920 (and similar provisions in the other textile quota bills) to add the words "or partially free" and thus to provide that the Act shall not include: "or any article which is now entitled to entry free or *partially free* of duty."

This simple amendment will have the desired effect of preserving the assembly operations using United States textile fabrics which are beneficial to the textile industry and to our good neighbor relations with other nations in the Western Hemisphere.

[From the California Apparel News, Los Angeles, Calif., April 19, 1968]

MEXICAN BORDER COTTON GOODS TIE-UP BROKEN

American-owned finished garments stalled in Mexico for several weeks by a cotton quota rule change were allowed to pass into the U.S. this week but there was little cheering in the ranks of the manufacturers involved.

Instead, they grimly attempted to reach agreement on a plan for a concerted effort to overturn the rule change that precipitated the delay and threatens to cut off all cotton garment assembly south of the border.

"We've got to get together on this thing if we expect to win," one manufacturer told California Apparel News, "but thus far we've encountered a lot of 'let the other fellow do it' attitude."

The rule change referred to was made by the President's Special Commission on Textiles. The commission ruled in mid-March that U.S. goods sent to Mexico for assembly must be applied to that country's cotton quota.

The action effectively halted return shipments of goods intended for sale during the pre-Easter rush and cast a long shadow over burgeoning American garment operations in Mexico.

The goods entering the U.S. this week from Mexico were allowed in only after both Mexico and the U.S. agreed to have them apply to Mexico's 1969 cotton quota.

But this is viewed as only a stop-gap measure by most manufacturers involved (an estimated 50, some of them large), and some smaller firms said they would suffer "fantastic losses" if something can't be done to open up the Mexican plants soon.

"We've got a considerable investment in Mexico," one manufacturer said. "Not only have we put a large sum into plant facilities there but we've also bought two expensive trucks to move the goods back and forth."

Several manufacturers told California Apparel News they have already suffered "staggering losses" as a result of the hold up of pre-Easter sale goods.

"Not only have we lost a bundle of money," one said, "but we've also seen our reputation tarnished. Many retailers were depending on us and we didn't deliver. Money can't make up for that."

The manufacturers claim they were forced below the border by the lack of skilled machine operators in the U.S. One manufacturer estimated that there are between 7,000 and 8,000 garment worker openings in Southern California "with nobody to fill them."

But this argument was challenged this week by several Los Angeles area contractors. "Who says there's no labor here?" questioned one contractor. "I've got people standing idle because many manufacturers I used to do business with have moved their business to Mexico."

One contractor charged manufacturers are moving their operations to Mexico for financial reasons only. "The reason is as clear as dollars and cents," he said. "They can get workers in Mexico for \$2 a day per person but my people get an average of \$1.80 an hour. This worker argument just doesn't hold water."

But the garment section of the California Department of Employment supplied figures that tend to support the manufacturer's contention. "It's difficult to come up with firm figures on this thing," a department spokesman said, "but garment worker unemployment has been extremely low the past few months, lower than at any time in the past several years."

The spokesman estimated that 500 to 1000 experienced operator openings go unfilled each month. "This will vary considerably but this is a fair average," he said.

He said the department, in cooperation with the L.A. public schools, sponsors a four-week garment worker machine operator course. "We can train between 20 and 25 persons a course but this hardly fills the demand."

He added that the department would be prepared to sponsor additional courses if it could be assured of support from the garment industry in the form of fabrics to be used in the classes.

"We've generally had good cooperation," he said, "but there has been a little trouble getting enough fabric for the classes."—R.M.

TABLE 2.—DOLLAR VOLUME OF IMPORTS UNDER ITEM 807 TSUS, APPAREL (KNIT AND WOVEN), BY COUNTRY (IN VALUATION AT THE POINT OF ENTRY INTO THE UNITED STATES)

[Amounts in dollars]

Country	1965	1966	1967	1968	1969
Bahamas.....			\$31,657	\$29,472	
Barbados.....			16,747	127,941	\$599,022
Belgium and Luxembourg.....		\$75,134	172,719		
British Honduras.....	\$337,301	321,765	344,385	560,433	817,602
Canada.....	24,670	1,080,780	489,717	262,427	2,360,247
China (Taiwan).....		1,797		68,232	526,611
Colombia.....				33,009	371,039
Costa Rica.....			91,813	287,713	1,805,792
Dominican Republic.....		692	22,697	41,403	90,177
Finland.....					312
France.....		4,298			26,752
French West Indies.....			32,287	2,043	10,379
Germany (West).....				747	23,278
Greece.....				1,360	
Guatemala.....			346		13,989
Haiti.....	208,135	101,681	136,864	278,066	817,305
Honduras.....		4,323	74,629	433,274	806,258
Hong Kong.....	110,917	387,839	495,345	471,895	324,068
India.....				1,705	
Ireland.....	3,962				
Israel.....					859
Italy.....	9,639	6,888	40,519	61,810	167,167
Jamaica.....	1,017,239	2,466,649	4,521,671	5,349,572	6,398,810
Japan.....			15,342	13,122	1,351
Korea.....				26,016	101,898
Leeward and Windward Islands.....		27,923	103,134	155,087	39,319
Malta and Gozo.....		270,439	44,424		
Mexico.....	9,325	1,344,381	3,977,424	10,117,931	17,235,333
Netherlands.....					5,775
Netherlands Antilles.....				4,311	3,092
Panama.....				2,428	98,301
Philippines.....		181,570	805,468	3,357,702	5,234,993
Poland.....					21,209
Portugal.....				774	32,229
Rumania.....					106,299
El Salvador.....			1,615	18,655	117,692
South Vietnam.....			4,289		
Spain.....			2,088	20,220	33,483
Sweden.....		2,491			
Thailand.....			923		
Trinidad and Tobago.....		81,958	790,116	2,275,354	2,338,853
United Kingdom.....	9,189	305			10,356
Total.....	1,730,377	6,360,913	12,215,829	24,002,702	40,537,850

Source: U.S. Bureau of the Census.

Mr. VANIK. At this time the committee will hear William L. Mayo. (Mr. Mayo was not in the room.)

Mr. VANIK. Our next witness is Frederick Hunt of the Office Machines International Institute.

STATEMENT OF FREDERICK D. HUNT, DIRECTOR, OFFICE MACHINES INTERNATIONAL INSTITUTE

Mr. HUNT. Mr. Chairman, my name is Frederick Hunt. I am a foreign trade consultant and I am also director of the Office Machines International Institute. This institute is not a trade association. It supplies foreign trade statistics and other data concerning the trade in

typewriters, adding and calculating machines, accounting and data-processing machines, cash registers, and office-copying machines throughout the world for the use of those engaged in market research. Most of the largest office machine companies subscribe to this service.

We are not related to the Business Equipment Manufacturers' Association. The BEMA is a domestic trade association which includes manufacturers of files and office furniture and business form as well as machines. A majority of the members have little interest in export or in production abroad. Therefore, we serve only those companies with international interests.

The institute was an outgrowth of the old Typewriter Manufacturers' Export Association which was established under the Webb-Promerene Act about 30 years ago. After 20 years in the Foreign Service of the United States, I became self-employed and one of my "hats" was as secretary-treasurer of the Typewriter Manufacturer's Export Association. This small group met quarterly and consisted only of the handful of American companies who manufactured typewriters at that time.

When the Italian company, Olivetti, purchased control of the Underwood Corp., the group decided to disband. However, just before that time, there had been consideration given to expanding the group to include adding and calculating machines. All of the original members produced a full line of office machines at that time. Since I had already expanded the services of the TMEA, the companies asked me to continue to render and expand these services but without the formality of a regular trade association. Thus the institute was born.

While primarily interested in the exports of other countries to third countries, the continued expansion of U.S. imports of office machines led us to make continuing studies of the countries supplying the machines, the quantity involved, and the average export prices. Attached to this statement you will find a report on the number of typewriters imported into this country during the first 4 months of this year.

(The information referred to follows:)

OFFICE MACHINES INTERNATIONAL INSTITUTE—IMPORTS OF TYPEWRITERS INTO THE UNITED STATES DURING
THE FIRST 4 MONTHS OF 1970

[By units only]

Country of origin	Standard number	Electric number	Portable number
Canada.....		6, 670	262
Mexico.....	240	1, 498	
Sweden.....		290	4, 097
United Kingdom.....		16, 244	112, 786
Netherlands.....	723	1, 143	77, 028
France.....	1, 366	196	176
West Germany.....	24, 338	39, 035	23, 464
Switzerland.....	2, 269	297	4, 490
Italy.....	2, 500	10, 334	400
Spain.....			43, 090
Portugal.....	12		18, 460
Czechoslovakia.....			4, 927
Yugoslavia.....			50
Japan.....		22, 857	223, 668
Total imported (4 months).....	31, 448	98, 564	512, 898
Total (12 months), 1969.....	119, 081	217, 101	1, 246, 743

Note.—If the 1970 data is considered as representing $\frac{1}{4}$ of the total for the year, then imports of machines for the entire year 1970 will exceed the entire year 1969 by 22 percent.

Mr. HUNT. This report shows only units since that is what is of principal interest. However, a conservative estimate of the retail value of just the typewriters imported during those 4 months is around \$20 million.

I would like to dwell especially on the subject of typewriters, as distinct from other office machines, because this commodity is one of the best examples we have of the operation of real "free trade" as defined by various U.S. members of delegations to tariff negotiations going back as far as the Hull trade agreements. In fact, much of Secretary Rogers' statement to this committee about 3 weeks ago must have been taken from old files and composed by the same staff who worked on GATT negotiations 20 years ago when I also served on the U.S. delegation to the GATT at Torquay, England.

The reason why typewriters make such a good example is that in all our history since the machine was invented, there has never been a tariff on typewriters entering this country despite the fact that every other country, whether or not a producer of typewriters levied a sizable tariff. It was at Torquay that we "bound" typewriters on the free-list so that we could never thereafter place a tariff in the future on typewriters without granting some other concession. The binding was given as a concession in return for a reduction in the amount of potatoes entering the United States from Canada. During the negotiations, everything was governmental secret which precluded the presence of industrial advisers, and no one bothered to ask the typewriter manufacturers what they thought about it. Since there was already no duty, this was considered to be an easy concession.

Five years later, with no other relief possible except for the "escape clause" provisions of the GATT, the American manufacturers appeared before the U.S. Tariff Commission requesting relief because, especially portable typewriters were being imported at such low prices that it would require a tariff of at least 22 percent to equalize costs. The companies were supported by two union locals even though the national offices of those unions were still so-called free traders.

It was at this same time that Underwood control was purchased by Olivetti so that Underwood, naturally withdrew any support of the action. Other members of the industry were loathe to be too vociferous because of a fear of the Antitrust Division of the Department of Justice which was especially diligent at that time and giving a sharp eye to any conversation between two or more producers of the same product. In any case, the Tariff Commission declined to grant the industry's request.

Before World War II there were only about six nations which produced typewriters for export. Today there are 11 manufacturing/exporting countries, not counting those machines produced in Eastern Europe, or in Mexico, Colombia, Brazil, Argentina, Portugal, South Africa, India, and elsewhere. It is estimated that well over 4 million typewriters moved in international trade last year.

If we take just these first 11 countries—and that, Mr. Chairman, is why I gave you the chart—we find nearly 3,800,000 machines exported of which those from the United States represented less than 2½ percent. Back in 1929 when the famous Tariff Act of 1930 was being formulated and which was noted for high rates of duty, there

was still no tariff on typewriters. In those days our country held about 80 percent of the world trade in these machines. There were more American manufacturers and only three basic models—none of them electric.

During the war it was found that typewriter factories lent themselves easily to the production of small arms. All manufacturers were ordered to make the changeover. Later, it was discovered that this had been overdone because sudden expansion of the Armed Forces required more typewriters and none were being made. The one exception was the IBM electric. The late Thomas Watson, Sr. had purchased the old Electric Typewriter Co. from the original inventor and made it into the IBM Typewriter. Mr. Watson rushed to Washington and persuaded the Government that this was only a small operation and should be allowed to continue. This is why IBM held a monopoly in the electric models during the immediate postwar years.

If I may interject there, apropos of the last witness it was interesting to note that Mexico will not give import licenses to American typewriters unless it is special models which are not made there. IBM has a plant in Mexico and the trade in typewriters which you see advertised by various dealers as factory rebuilt are sent to the Mexican factory rather than the factory in Kentucky to be so rebuilt. Then they come back to the United States. As I told Mr. Bush, this does not help Texas labor, but the cost of labor in the Mexican typewriter plant is much less.

Section 807 is not necessary in this case, because there are no duties on typewriters so they can just ship them down in bond to Mexico. They come back and you don't even have to do the paperwork at the port.

While the other American companies were trying to restart production and also produce an electric model, the Marshall plan assisted the construction of modern plants in Europe for our competitors and at our expense. In Italy, for example, one of the finest and most up-to-date typewriter plants was constructed for a company headed by an Italian senator. It was our Government's policy to help to rebuild the trade of Japan, Germany, Italy, France, and so forth, by encouraging purchases from these countries. As the foreign assistance empire spread, there was off-shore buying for aid to third countries.

Our generosity was not reciprocated, however. The old files of the TMEA are filled with requests to the State Department for assistance in removing various administrative barriers placed by European countries which effectively closed those markets to American typewriters.

In order to meet this resistance and to get inside of the restricted exchange markets, American companies found it expedient to establish subsidiaries in Western Europe. By the time these countries removed foreign exchange restrictions labor costs in the United States had caught up with the inflation of the dollar and were considerably higher than that paid for the same skills in Europe. In order to be competitive in third countries, the U.S. companies found it necessary to ship to those countries from their foreign plants. Naturally, this caused a decline in export from U.S. factories. Continued increase in costs in this country coincided with greater output by plants in Europe

and Japan at lower prices so that the exports to the United States increased. This was especially true in the case of portable typewriters.

With the introduction of compact electrically powered typewriters and smaller manual typewriters, more and more of the American market is being supplied from abroad by both American subsidiaries and foreign companies. Thankfully, our market for office-sized typewriters is so large as to keep the factories of four companies in business of making certain models. However, there have been some casualties among the oldest names in the business. The Underwood plant in Hartford, Conn., was closed 2 years ago and the Royal portable plant in Missouri has also been closed.

No matter how often U.S. Government spokesmen tell you that wages are rising in Europe and Japan, it must be remembered that they started from a very low base and are still much lower than in this country. Furthermore, as the wage paid on the assembly line increases, there is a decline in quality control. You simply cannot allow a mechanic to take very long when he is paid so much per hour.

That is the history of typewriters—a genuine free trade item. The same applies to other office machines even though they bear a nominal tariff which, since the Kennedy round of the GATT means very little. During just the 1 month of April this year, 1970, we imported 80,540 adding machines, 14,365 mechanical calculating machines, 19,200 electronic calculating machines, 3,800 cash registers, 5,367 office-copying machines, 2,186 accounting machines, and 2,010 data-processing machines.

Most of the electric adding machines enter this country under the guise of calculating machines because the duty on calculators has always been 2 percent lower than for adders. I cannot recall another country that does not have the same duty for both machines. Our customs inspectors do not have the time or the inclination to check these imports carefully. The loss in customs collections in imports of adding machines from a single country in just the one month of April would have paid the salary of one customs inspector a whole year. Importers also have the advantage of paying duty on only the f.o.b. cost of the goods. We are the only major trading country that does not levy duties *ad valorem* c.i.f. port of entry.

Furthermore, in finished goods, such as machinery, our import statistics, as published by the Department of Commerce, are very poor due to so many misclassifications. Our export statistics also have many misclassifications and, for those concerned with our balance-of-payments position, do not separate truly commercial exports from those financed by the U.S. Government.

We hear so often from officials in the Departments of State and Commerce or from professors of economics in their ivory towers, telling us that office machinery is one of our major exports. They tell us how far ahead of everyone else is American technical know-how. The trouble is that when they speak of office machinery they conjure up large computers. Certainly we make for export several custom-built computers which are usually a single sale, and we also export a number of components to be incorporated into foreign computers. But do not get too excited when you see an export item one month jump \$2 million and say that exports have increased. That was

probably a large system for an airline and they need only one of them. We also ship some computers to be used in the automation of foreign factories who thus are able to reduce the cost of production of the consumer goods they send to the United States. It is like selling a large jet passenger plane to a foreign-flag airline which then earns many more dollars carrying American passengers and freight. Furthermore we have overlooked the increase in the sale of small planes manufactured abroad for our growing market in general aviation.

A few days ago a spokesman for the labor unions connected with the steel industry appeared before this committee and made several pronouncements against multinational corporations. He felt that much of our present trouble was due to American firms building or buying plants abroad. The largest and best known office machine companies are multinational and I think that the history of typewriters that I have just given will explain why. Can the U.S. Government continue a policy of allowing wages and salaries to increase constantly while at the same time making it easier and easier for foreign countries to export their products to the United States? Are we to become a nation where vast numbers of skilled workers make a good living servicing and selling imported goods while the unskilled and the marginal worker resides as a ward of the state?

Just 2 weeks ago your committee considered the President's request to increase the Federal debt limit. It is an academic exercise because everyone knows it will be done regardless of what is said here. Why do we try to fool the American people into thinking that this is something temporary? Every time that debt is increased, the U.S. dollar is devalued in equal proportion. We don't like to admit that and most of the nations of the world have found the U.S. dollar as the best common denominator for use in international trade. So what do they do? Some nations have decided to allow their currency to "float." When it gets through floating, it usually has a higher rate in relation to the dollar.

The theory of free trade is great—an ideal—and quotas is a nasty word. However, we must be realistic. There is a bill before this committee which I think is fair because it allows for flexible quotas. It does not bar outright certain products such as the Mexicans do, nor raise a high tariff wall. It gives the foreigner a share of the American market, increasing that share when the market rises, but lowering the foreign share when the market declines. This would give us a little more strength in negotiations in the future. We know that tariffs mean little and we wasted a great deal of time at the Kennedy round.

When Secretary Hull initiated his trade agreement program we were able to lead from strength because we had high tariffs from which to bargain. We muffed that opportunity badly. Following the war many nations met at Havana to discuss trade concessions and which eventually came up with the General Agreement on Tariffs and Trade, we missed the boat again. It did not take the foreign negotiators very long to see that if they just sat there, those eager beavers from Washington full of theory but short on practice would give them what they wanted. To sit around 2 years while the Europeans were so obviously dragging their heels was, to my mind, outrageous.

It is time for a complete overhaul and not just patchwork. Economy

in the administration of the Government would be a first step toward strengthening the dollar. I realize this is difficult. It is hard to tear down any empire once it has been established. In the meantime, I hope that you will recommend to the full House a foreign trade bill which will restore to our country some bargaining power for dealing with other countries. Then I hope that you will not permit the Executive to enter into any international trade negotiations without first coming to the Congress for full discussion and approval. This will permit you to clean house and to bring about the introduction of new negotiators with fresh, up-to-date ideas and with permission to seek the advice and industrial knowledge of persons outside the Government.

Pending such future action it is incumbent upon the Congress to see that those in the executive branch who administer existing laws affecting foreign trade give more consideration to the plight of Americans and the protection of American business within existing regulations. I think this has already been expressed by past witnesses.

Thank you, Mr. Chairman.

Mr. VANIK. Thank you very much.

Are there any questions?

Mr. GIBBONS. You certainly have made an excellent statement here, and I want to thank you for allowing us to have this chart. I think it is most informative.

May I ask you a question about this chart: I think a chart like this would be fine in our committee records, but I notice you have on here all rights reserved. Would it be all right to put this in the committee record?

Mr. HUNT. This is why I handed it to you. It is simply not for publication. Some companies pay me money for this and I want to protect it.

Mr. VANIK. The understanding is it will not be published but it will be available to the members of the committee.

I would suggest perhaps we ought to have extra copies for the other members of the committee.

Mr. Betts.

Mr. BETTS. I don't know how to say this. I guess there are two sides to every question. I have been hearing the other side and I think you have stated your side most articulately, and I want to compliment you for it.

Do you have the number of the bill that you mentioned at the bottom of page 5, and at the top of page 6?

Mr. HUNT. I do not have the number because about 70 members have introduced it. It goes under the so-called Fair International Trade Act.

Mr. BETTS. The reason I asked, I am sure that is the bill I introduced and sponsored. Mr. Dent and I had a special order on it one day. We got a lot of support for it. I am particularly happy to have you mention it. I think you are the first witness here who has mentioned it and I am glad to see some support for it. I feel it offers some relief no other bill offers. It triggers in relief to fit the imports situation. When the import situation increases, quotas are restricted, and vice versa. If the import situation eases up, then the quotas are relaxed a little bit.

I just want to say I happy to have you mention the bill and know you support it.

Mr. HUNT. It does have the advantage of giving the foreigner enough of the business in this country so as to keep competition while still giving some protection, and something from which we may bargain.

Mr. Chairman, I would like to say one other thing: Yesterday you had a gentleman here from Wang Laboratories. The man is a Chinese-American who started the company. He mentioned the problem of electronic calculators. Wang is one of the American manufacturers. They also make a mini-computer. The electronic calculator is just about as Japanese now as the television business.

Mr. BETTS. Are there any typewriters made and manufactured in the United States?

Mr. HUNT. There is only one model portable typewriter made here. We still manufacture a good many office typewriters, as they are called. In this field, the manual machine is declining in demand, naturally, and the electric machine is gaining. The smaller electric ones are the ones mostly being imported but we have quite a few of the large-sized machines such as you use in your office coming from such countries as Germany, Italy, and Sweden in particular.

Mr. VANIK. Thank you very much. We certainly appreciate your testimony.

Mr. GIBBONS. May I ask one question about the chart.

This chart is on a yearly basis, is that right?

Mr. HUNT. That is calendar year and the source of this is mainly taken from the Customs of the various countries. These machines actually pass through the Customs.

Mr. GIBBONS. I understand. The United States apparently imports from these 11 countries that you have here, 1,400,000 typewriters last year; is that right?

Mr. HUNT. Yes, sir.

Mr. GIBBONS. We only sold about 100,000?

Mr. HUNT. If you add those four figures together you will get about 90,000 some of those we exported. You see the countries included are Puerto Rico and places like the Ryukyu Islands, which is Okinawa. Many of those are in the foreign aid program and many of them are specialized. In the portables those are mostly the electric or semielectric.

Mr. GIBBONS. How many do we sell to South Vietnam?

Mr. HUNT. South Vietnam shows a lot of typewriters, but it is hardly like a real commercial sale.

Mr. VANIK. They get them at the surplus sales, service them, and they are sold onto the market.

Mr. GIBBONS. It is still not many typewriters for South Vietnam.

Mr. HUNT. No, sir; but there are not so many people who can type, outside of the military.

Mr. VANIK. Thank you very much.

Mr. HUNT. Thank you, Mr. Chairman.

Mr. VANIK. Our next witness is Mr. William F. Christopher, chairman, International Committee, Society of Plastics Industry.

STATEMENT OF WILLIAM F. CHRISTOPHER, CHAIRMAN, INTERNATIONAL COMMITTEE, SOCIETY OF THE PLASTICS INDUSTRY; ACCOMPANIED BY ROBERT R. TIERNAN, COUNSEL

Mr. CHRISTOPHER. Mr. Chairman and members of the committee, my name is William F. Christopher. I am director of marketing for Hooker Chemicals Corp. whose main offices are located at 277 Park Avenue, New York City. I am accompanied by Robert R. Tiernan, counsel of the society.

I am also chairman of the International Committee of the Society of the Plastics Industry, Inc. In that capacity, I am pleased to have the opportunity to file this statement as a means of presenting the society's views on two major trade bills introduced in this session of Congress, H.R. 14870 and H.R. 16920. In accordance with the instructions set forth in the committee's press release of May 4, I shall also comment on and present recommendations concerning other means of stimulating United States exports.

SUMMARY

The statement of the Society of the Plastics Industry, Inc., the national trade association for the plastics industry, contains specific comments on those Sections of H.R. 14870 and H.R. 16920 of direct interest to the plastics industry. In addition, the statement offers a number of recommendations with respect to further legislative steps which are deemed appropriate at this time.

In its statement, the Society recommends enactment of Section 201 of H.R. 14870 which would enable the President to reduce tariff duty rates through July 1, 1973, subject to the limitations that (1) the President be authorized to reduce duties by a maximum of 10 rather than 20 percent and (2) the legislation specifically provide that such authority may be exercised only where necessary to implement existing trade agreement programs.

The statement strongly urges that those Sections of H.R. 16920 which would serve to liberalize the criteria for tariff adjustment and adjustment assistance be adopted at an early date. Support is also given for enactment of Section 203 of H.R. 14870 which would broaden the President's powers to take retaliatory action against discriminatory acts of other nations which affect U.S. trade.

The statement recommends that top priority be given to the taking of legislative action aimed at equalizing competitive imbalances disadvantaging United States exports which result from differing tax structures of other industrialized nations. Among other things, the Society recommends offsetting tax relief to minimize the distortion to trade caused by border taxes and specifically endorses a number of other tax measures including adoption of the Treasury Department's DISC proposal.

It is also recommended that legislative action be taken to simplify documentation involved in conducting export business. Additionally, it is suggested that increasing emphasis be placed on the removal of inequities to United States export trade caused by disparities in ocean freight rates favoring our foreign competitors.

Finally, a number of administrative recommendations are made including support for a strengthened Office of STR and other organizational steps aimed at increasing industry-government dialogue on trade matters.

Mr. CHRISTOPHER. By way of introduction, the Society of the Plastics Industry, Inc., is a corporation organized and existing under the membership corporation laws of the State of New York. The society's functions are to represent and serve as the official spokesman for the plastics industry in the United States; to provide and stimulate organized research, education, and information within the industry and with governmental bodies and other interested organizations; to act as an authoritative central forum for its member companies; and

to promote the use and application of plastics, consistent with the public interest. The society is composed of over 1,200 companies, which supply raw materials, process or manufacture plastics or plastic products, engineer or construct molds or accessory equipment for the plastics industry, and engage in the manufacture of plastics machinery. The society is the major national trade association of the plastics industry, its membership being responsible for more than three-fourths of the total dollar volume of industry sales in the United States.

The international committee is a standing committee of the society whose function it is to consider, investigate, make recommendations, and take action on the plastics industry's behalf with regard to matters involving international trade. One of the primary activities of the committee is to represent the industry on such matters before appropriate committees of Congress as well as other agencies and departments of Government. The committee also serves as a vehicle to keep society members abreast of current developments in international trade.

I. STATEMENT OF GENERAL POSITION

In general, the society supports H.R. 14870 insofar as it would give the President authority to deal with discriminatory acts against U.S. exports. Moreover, the society strongly endorses that portion of H.R. 16920 which would ease the eligibility criteria for tariff adjustment and adjustment assistance for firms, workers, and industry alike. In addition, while not supporting the exact proposal as embodied in either of those bills, the society believes that the President should be given authority to reduce tariff duty rates, such authority, however, to be restricted to adjustments administratively required by the operation of existing trade agreements programs.

The society is also of the opinion that there are other matters pertaining to trade which should be dealt with by way of legislation at this time. One such matter is the trade disadvantage to U.S. goods resulting from differences in taxation systems and practices among nations. Another is the establishment of more formal machinery which would enable U.S. industry to participate more meaningfully with Government on tariff and trade matters.

In the succeeding portions of this statement, I shall first comment on those specific measures proposed in H.R. 14870 and 16920 which are of direct interest to the plastics industry. Thereafter, I shall offer those recommendations of the society with respect to such further legislative steps as are deemed appropriate at this time.

II. COMMENTS

A. Extension of President's authority to reduce tariff duty rates (sec. 201 of H.R. 14870, sec. 203 of H.R. 16920)

Section 203(a) of H.R. 16920 is aimed at extending, until July 1, 1973, the authority of the President to reduce tariffs as originally granted in the Trade Expansion Act of 1962. On the other hand, section 201 of H.R. 14870 would serve to confer one authority on the President to reduce tariff duties by 20 percent across-the-board through

July 1, 1973. While the printed analysis of that bill indicates an intent to restrict the exercise of such authority to what is necessary to meet existing trade obligations, such limitation is not set forth in the proposed statutory language as it is in H.R. 16920.

The society is of the view that the President should be given sufficient authority to enable him to reduce tariff duty rates for "house-keeping" purposes. However, it is believed that tariff-reducing authority of a magnitude of 10 percent rather than 20 percent as proposed in H.R. 14870, would be more than adequate to accomplish this result. Moreover, the limitation of such authority to the implementation of existing trade agreements programs should be set forth explicitly in the statutory language substantially as it is in H.R. 16920. Subject to these reservations, the society supports section 201 of H.R. 14870.

There is one very serious problem presented by section 203 of H.R. 16920 which must not be overlooked. Section 203 would restrict the extension of the President's tariff reducing authority to what remains unexercised after the "Kennedy round" cuts. That restriction is such that the only items to which the proposed extended authority could apply would be the very items which were excepted from a full 50 percent reduction during the "Kennedy round" precisely because they were deemed by our negotiators to be particularly import-sensitive, and therefore, deserving of special treatment. Examples of some commodities in the plastics industry which were accorded such treatment were polyester and/or acrylic buttons (TSUS item 745.32); button blanks, molds, or parts of buttons (TSUS item 745.40); eyeglasses, and so forth valued over \$2.50 per dozen and frames, mountings, and parts thereof (TSUS items 708.45 and 708.47); billiard, pool, and bagatelle balls (TSUS item 754.05); and wearing apparel, not specifically provided for, of rubber or plastics (TSUS item 772.30). In view of the fact that commodities falling within these categories undoubtedly continue to remain import-sensitive, it would not be appropriate to restrict any extension of the President's authority to reduce duty rates for "housekeeping" purposes solely to these items.

Based upon the foregoing, it is the society's recommendation that section 201 of H.R. 14870 be adopted subject, however, to the limitations that the President be authorized to reduce tariffs by 10 rather than 20 percent through July 1, 1973, and that the legislation specifically provide that such authority may be exercised only where necessary to implement existing trade agreements programs.

B. Foreign Import Restrictions and Other Discriminatory Acts (Section 203 of H.R. 14870)

Section 203 of H.R. 14870 proposes to give the President authority to take retaliatory action against discriminatory acts by other nations. Previously, this authority was limited to agricultural trade. Section 203 also serves to broaden the definition of discriminatory acts to include the providing of subsidies or other similar incentives by other nations which have the effect of impairing the United States competitive position in third country markets.

The society believes the fundamental rules of fair play dictate that the President should have the ability to take retaliatory action against discriminatory acts with respect to all commodities. Moreover, we agree that exercise of this power should be authorized without regard

to whether the United States is competitively disadvantaged here or in some other third country market. Accordingly, the society strongly supports section 203 of H.R. 14870.

C. Tariff Adjustment and Adjustment Assistance (Sections 301-305 of H.R. 14870; Sections 201 and 202 of H.R. 16920)

The society wholeheartedly endorses all of these portions of H.R. 16920 which would amend the present law regarding tariff adjustment and adjustment assistance. It strongly recommends adoption of that provision of the bill which would abolish the requirement that relief be limited to injuries resulting from prior tariff reductions. Likewise, the society supports the redefinition of criteria which would permit firms, workers, and industry to be eligible for tariff adjustment or adjustment assistance if imports have or are likely to be a substantial cause of injury. This is a significant step forward from present standards which require proof that imports are a "major" cause of injury, and is an improvement over H.R. 14870 which would require industry, unlike individual firms or workers, to show that imports are the "primary" cause of serious injury.

The society is also in agreement with the philosophy as expressed in H.R. 16920 that tariff adjustment and adjustment assistance should be made permanent cornerstones of United States trade policy, that consideration of such relief should be handled on an expeditious basis, and that the United States Tariff Commission should retain its fact-finding and advisory roles in this area.

Finally, the society urges adoption of the definition of the term "domestic industry" contained in section 212(e) of H.R. 16920 subject, however, to the suggestion that geographic considerations should also be taken into account. Certainly, the definition of industry should be sufficiently flexible to permit tariff adjustments to be granted where imports are causing or likely to cause injury in an appropriate regional area. It is therefore, recommended that section 202(e) be amended to insert the phrase "... appropriate regional or national" immediately before the word "aggregate" in line 13, page 10 of the committee print of H.R. 16920.

III. RECOMMENDATIONS FOR FURTHER LEGISLATIVE ACTION

A. General

Many of the industrialized nations of the free world have very effective export incentive programs. While these incentives take many forms, their purpose is clear—to make export business as attractive as possible.

The United States has generally avoided such mechanisms, relying instead on the business community to compete in world markets through a combination of export sales and foreign production facilities. Because its efficiency and productivity has enabled U.S. industry to equalize competitive disadvantages, these policies have served the Nation well in the past. However, the deteriorating position of the U.S. trade balance has given rise to increasing concern about present policies and it is now believed that it will be necessary for Government to take additional steps to increase exports by giving assistance aimed at balancing the position of domestic firms vis-a-vis their foreign competitors.

Admittedly, the problem of equalizing competitive imbalances to increase our exports is highly complex. However, a touchstone in any such program must be an awareness that one of the key elements now restraining an increase in our exports is that the net realization on such exports, taking into account the risks involved, the effort required, and the need of highly skilled personnel, is not satisfactory. The solution, therefore, is an export program which moves toward equalizing competitive disadvantages thereby augmenting the net return on export sales to a degree sufficient to induce U.S. firms to more actively participate in international trade. We believe that the Government is free to adopt a number of limited measures which, in the aggregate, would go a long way toward making exports a more attractive business.

B. Tax Considerations

Seven years ago, in 1963, industry studies on trade barriers identified border taxes as a discrimination that was then limiting our international trade. Industry projections were that border tax adjustments would become an increasingly significant discrimination against our trade as more countries adopted the value added system of taxation and as the EEC countries harmonized to a common value added tax rates. This is what has happened. Yet, not until President Johnson's "Balance of Payments" message in January 1968 was there any official recognition by Government of the border tax disadvantage to U.S. trade. In that message, President Johnson made a sort of Presidential commitment to do something about border taxes. During the course of subsequent hearings before the Ways and Means Committee, the view was expressed by the committee chairman that "something" had to be done about border taxes. Today, an additional 2½ years have passed and Government has yet to take action aimed specifically at redressing this inequity.

In January 1969, Ambassador William M. Roth's report to the President entitled "Future U.S. Foreign Trade Policy" discussed the border tax problem, listed seven possible actions that could be taken, and concluded, "The United States should press its present initiative in the GATT with the objective of negotiating in 1969 a solution that would substantially neutralize the trade distortion caused by border tax adjustments." Three of the public advisers participating in the preparation of the report added comments recommending unilateral action should efforts through GATT prove nonproductive. However, since the Roth Report was submitted, seventeen months have gone by without any meaningful progress.

In 1947, when the GATT was organized as a temporary mechanism to deal with trade matters, the contracting parties agreed that taxation should be trade neutral. To accomplish this it was specifically agreed that exported goods would be taxed in the country of destination; not in the country of origin. In this way all goods—domestic and imports—would be similarly taxed in the consuming country. Taxes on goods (indirect taxes) in the exporting country would either not be paid, or would be rebated. In the importing country, such taxes would be levied at domestic tax rates, and tax neutrality would be achieved. This agreement amounted to confirmation of the current practice at that time. For the trading world of the 1940's

and 1950's this concept was workable enough, for at least two reasons: (1) The primary objective of U.S. trade policy was economic support for the rebuilding of overseas economies ravaged by war, and (2) taxes on goods were at that time far less significant in the taxation system of competing nations than is the case today.

In such a trading world it was not illogical to assume that taxes on goods (indirect taxes) are shifted forward to consumers and, therefore, should be borne by consumers in the country of destination and that taxes on income (direct taxes) are paid out of profits and are not shifted forward in the form of higher prices to the consumer and, therefore, should be borne in the country of origin. With these assumptions on the incidence of indirect and direct taxes, the border tax adjustments could be considered trade neutral.

Assumptions, however, are not always validated by experience, and seldom in the realm of economics can survive unchallenged or unblemished for a quarter century. And structures of economic logic can be consistent in their reasoning without being consistent in their relevance to the real world. Such is the case with the historical assumptions and logic of border tax adjustments.

Professor William J. Brown writing in the May 1970 issue of *Business Economics* constructs a matrix to show the effect of various combinations of border tax adjustments on U.S. trade. Using Professor Brown's approach, but modifying it to include only the border tax situation as it exists today, gives us the following simplified matrix:

EFFECT OF BORDER TAX ADJUSTMENTS ON TRADE

EEC value added tax rebated on exports	U.S. corporate income tax not rebated on exports		
	Borne entirely by consumers	Borne partly by con- sumers, partly by producers	Borne entirely by producers
A. Borne entirely by consumers.....	1. Disadvantage to United States.	2. Disadvantage to United States.	3. Neutral.
B. Borne partly by consumers, partly by producers.	4. Disadvantage to United States.	5. Disadvantage to United States.	6. Disadvantage to United States.
C. Borne entirely by producers.....	7. Disadvantage to United States.	8. Disadvantage to United States.	9. Disadvantage to United States.

The left hand column of this matrix shows the EEC value added tax which is rebated on exports and lists three possible conditions for the incidence of this tax: (A) It might be borne entirely by consumers; (B) It might be borne partly by consumers and partly by producers; and (C) It might be borne entirely by producers. Similarly, the row across the bottom of the matrix shows the U.S. corporate income tax which is not rebated on exports and lists the same three possible conditions for the incidence of this tax. The matrix cells, 1 through 9, show the effect on U.S. trade of all combinations of these possible conditions of tax incidence.

It can be seen that, if the rebated value added tax is wholly borne by consumers and if the U.S. corporate income tax which is not rebated is wholly borne by producers, the trade effect is indeed neutral (cell 3). However, under any other conditions, the trade effect is a disadvantage to U.S. producers.

What are the probabilities that the value added tax is, in fact, 100

percent borne by the consumer and not, in any amount, shifted backward to the producer and the U.S. corporate income tax 100 percent borne by the producer and not, in any amount, shifted forward in price? The answer to this question requires definitive studies of tax incidence for both the value added tax and the U.S. corporate income tax. Studies that have been made of the U.S. corporate income tax range in their conclusions from 100 percent incidence on producers to 100 percent incidence on consumers. In our view, such studies do substantiate the conclusion that the tax, in fact, is borne to some considerable extent by the consumer. Similarly, studies on the value added tax indicate at least some incidence on producers.

Whatever the precise facts, it would be hard indeed to substantiate as valid the one pure condition under which present border tax adjustments are trade neutral for the United States. To any extent that value added taxes are borne by producers and to any extent that U.S. corporate income taxes are borne by consumers, the present system of border tax adjustments discriminates against U.S. trade.

The society's assumption is that, in the economic world of the 1970's, the incidence of the two taxation systems falls substantially on consumers in both cases. Based on this assumption, cell 5 or cell 1 appears to best describe the present effect of border tax adjustments on U.S. trade. For this situation, it follows that trade neutrality would be achieved by establishing similar border tax adjustments for both taxation systems.

The foregoing considered, the society recommends that our Government allow or negotiate to allow offsetting direct tax credits for foreign indirect taxation paid by or on behalf of U.S. exporters as well as to grant similar offsetting relief to the extent that such taxes are rebated to our foreign competitors when competing in third country markets. To some extent, such a program can be accomplished within existing GATT rules. Beyond this, it may be necessary for the administration to negotiate revisions to GATT aimed ultimately at achieving full competitive equalization. Such a program must be given top priority by this administration and by Congress.

Two further points might appropriately be made to provide additional background for evaluating the present effect of value added tax adjustments. The value added tax is a new development. It was invented by France where it was adopted by the French Parliament in 1954 and was only implemented in its present form in France in January 1968. Only in the last 3 years has this taxation system been broadly adopted throughout Europe. While in the early early sixties foresight could project the problem coming, only now is the value added tax system really operating as a serious deterrent to our trade.

The second additional point is that, as has been seen earlier, only by interpretation can the value added tax be considered as a tax on goods and, therefore, eligible for border adjustments under GATT. The fact, though, is that the tax is not levied on goods, but on producers, just as is our corporate income tax. The tax basis is total value added, including profit, which is part of value added. Considered in this context, only favorable and, we believe, quite generous interpretation of GATT

rules results in the present continued discrimination between the EEC value added tax and the U.S. corporate income tax.

In addition to the recommendations set forth above, the society also endorses the suggestions of the National Export Expansion Council for amendments to the Internal Revenue Code which would have the following results:

1. Liberalization of export trade corporation provisions.
2. The elimination of foreign sales income from subpart F.
3. The extension of Western Hemisphere Trade Corporation provisions so that they will apply to export sales.
4. The granting of an annual capital allowance for equipment in the United States which is used in producing goods for export.
5. The granting of a substantial incentive deduction for promotion expenses in connection with export sales.

Finally, the society also recommends adoption of the Domestic International Sales Corporation (DISC) proposal of the Treasury Department as one constructive step forward in the neutralization of tax burdens now imposed on U.S. industry.

C. Foreign Investment

Existing foreign direct investment controls seriously hamper the U.S. plastic industry's ability to participate profitably in foreign markets, a disadvantage which far outweighs any possible benefits which may be realized by such controls. The society, therefore, urges their elimination.

D. Documentation

It is generally recognized that the number and complexity of shipping and other documents involved in doing business overseas is a major barrier to exports from this country. This is particularly true of many smaller companies, which, numerically, constitute the majority of the society's membership. We believe that many of such companies do not participate fully in world trade, at least partly because of the complex and burdensome requirements for documentation.

The society is aware of the efforts being made to simplify documentation by both governmental and private organizations. We strongly urge that these matters be given top priority and that the Congress move promptly to pass enabling legislation aimed at achieving these desired ends where necessary.

E. Ocean Freight Rates

Ocean freight rates represent a significant part of the landed value of exported products and inequities in rates, therefore, distort trade. However, heretofore, the greatest emphasis appears to have been placed on the disparities between freight rates on items inbound to the United States vis-a-vis those applicable to outbound shipments. While disparities in such bilateral trade should continue to receive attention, it is the society's belief that similar emphasis should also be given to the presence of disparities to third countries. This will serve to assure that U.S. plastics producers will not be at a further disadvantage in competing with other major manufacturing countries in those markets.

As a first step in implementing a positive program in this area, the society recommends that strong efforts be made to assure cooperation between U.S. shippers and ocean carriers serving the United States to develop rates and conditions conducive to increasing our export trade to third countries. Specifically, we recommend that consideration be given by both the administration and the Congress to the passage of legislation which would give antitrust immunity to groups of shippers which deal collectively with ocean carriers and conferences of carriers on matters pertaining to rates and other conditions of carriage.

F. Administrative Recommendations

In the society's opinion, one of the significant shortcomings in U.S. trade policy has been the existence of a serious "information gap" between those in government responsible for implementing our trade programs and those in the private sector who have such vital interests at stake, most notably domestic industry. This was evident, for example, in the concluded "Kennedy round." Due to the lack of any really manageable system, it was difficult—often impossible—to establish a meaningful dialogue between industry and those officials responsible for the conduct of our negotiations. As a consequence, in many instances, our negotiators were deprived of the in-depth knowledge needed to make fully informed and truly enlightened decisions.

The society is aware that the administration has now formed a Commission composed of those in the private sector to examine and prepare recommendations on trade and related policies. While we applaud this move, it does not appear that the Commission is intended to meet the need for an industry-advisory program aimed at dealing with matters relating to specific commodities or commodity groups. Accordingly, we make the following recommendations concerning such an industry-advisory program.

1. The advisers should be organized on a "sector" concept, with plastics as one sector, and there should be as few advisers as possible. In turn, the industry advisers would organize contacts within their industries so that prompt and reliable data would be readily available.

2. The appointment of the industry advisers should be made official rather than unofficial. Among other things, this would give rise to obligations which would substantially solve problems of confidentiality. Moreover, those appointed would be experienced individuals accustomed to handling confidential information, and they could be relied upon to do so. This would result in far greater access to reliable and pertinent economic data.

3. The industry advisers should be called upon to participate in discussions and conferences, and in a continuing two-way dialogue on all aspects of trade negotiations. This would include counselling conferences with the Office of the Special Representative for Trade Negotiations, advisory participation in tariff negotiations, attendance at OECD Industry Committee and other committee meetings, participation in or an advisory relationship to participants at UNCTAD conferences, and participation or advisory service for regional trade organization conferences.

Another important consideration for future trade policy is a better coordination or "Orchestration" of the various government information sources, such as the Tariff Commission, the Department of Commerce, the Bureau of Customs, and the many other agencies and departments involved. Under present procedures, each agency gathers and disseminates its information and views within the limited context of its own particular functions. Clearly, their horizons must be expanded to encompass the worldwide competitive and trade situation. Undoubtedly, this will require some redefinition of responsibilities and functions for each agency source.

The establishment of the office of STR under the provisions of the Trade Expansion Act of 1962 has provided an improved administrative method for handling the complicated problems of trade negotiations. The society continues to support that office and urges that it be further strengthened by the addition of personnel and resources to better cope with the many problems now before it.

We trust that the views expressed in this statement will be of value to the Committee on Ways and Means in its consideration of H.R. 14870 and H.R. 16920 and that the members of the committee will consider the recommendations contained herein to be constructive and helpful. Needless to say, if you wish us to further amplify any of the points we have covered, or if you have any questions whatsoever concerning the contents of this statement now or later, please do not hesitate to call upon us.

Thank you very much.

Mr. VANIK. Thank you very much.

Mr. GIBBONS. I want to commend the witness for a very thoughtful statement.

When you were describing the Kennedy round I almost thought you were describing Congress here. I appreciate those remarks.

Mr. VANIK. Mr. Betts.

Mr. BETTS. No questions.

Mr. VANIK. Thank you very, very much. We certainly appreciate your testimony.

At this time we will hear our final witness, Mr. Myron Solter, counsel for the Clothespin & Veneer Products Association. We are sorry to keep you so late, but we are here too.

STATEMENT OF MYRON SOLTER, COUNSEL, CLOTHESPIN AND VENEER PRODUCTS ASSOCIATION.

Mr. SOLTER. Mr. Chairman, members of the committee:

My name is Myron Solter. It is my pleasure to appear before the committee today as counsel for the Clothespin & Veneer Products Association. This association accounts for virtually the total production of wooden clothespins, wooden toothpicks, and numerous other small woodenware articles in the United States. A list of the members of the association is appended.

(The list referred to follows:)

CLOTHESPIN AND VENEER PRODUCTS ASSOCIATION, INC.

Diamond National Corporation,
733 Third Avenue,
New York, New York
Forster Manufacturing Co., Inc.,
Wilton, Maine
Hardwood Products Co.,
Guilford, Maine

National Clothespin Co.,
Box 247,
Montpelier, Vermont
Penley Brothers,
West Paris, Maine
Solon Manufacturing Co., Inc.,
Solon, Maine

Mr. SOLTER. The Clothespin & Veneer Products Association wishes to express its unqualified support for H.R. 16920 and its support for those portions of the administration's trade bill, H.R. 14870, which would amend the escape clause.

An important place in these hearings has been devoted to the "special" problems of the textile and footwear industries and the proposal contained in H.R. 16920 to establish mandatory import quotas for the products of those two industries. The textile and footwear industries have the full support of our small clothespin and veneer products industry, both in claiming special status and demanding mandatory import quotas.

However, it is my task today to present the dilemma of the doomed, small industry—small in the sense of not having sufficient national importance to merit consideration as a "special case" entitled to the protection of legislatively imposed import quotas; doomed in the sense that there exists no adequate defensive remedy for such non-special small industries being destroyed by excessive import competition. Thus posed are the two horns of the dilemma: being nonspecial, it is fruitless for the small industry to seek mandatory legislative quotas, and, alternatively, it is equally fruitless to pursue the small industry remedy of the escape clause as it is presently constituted.

We think it is extremely important that the committee recognize that the problems we present here today are typical of many other similarly situated small industries in the United States, that in the aggregate the relative importance of such industries can be quite special, and that the remedy we propose can have general application to many other small industry groups.

When the effects of excessive import competition on the clothespin and veneer products industry are examined, we are impelled to the conclusions that—

(1) Without adequate protection from excessive import competition, this industry cannot survive the full ambit of the Kennedy round duty reductions.

(2) The problems entailed by the loss of jobs and the economic impact on the communities involved cannot be solved by adjustment assistance.

(3) The escape clause as presently constituted affords no "escape" at all, and to provide small industry an effective tariff adjustment remedy the present criteria of eligibility for escape clause relief must be amended along the lines of H.R. 16920. It is for this reason that the Clothespin and Veneer Products Association supports, in full, H.R. 16920 and with reservations those parts of H.R. 14870 proposing amendments to the "Escape Clause."

I

The Kennedy round duty reductions are inducing rapid increases in imports—each new reduction tolls the death knell for the clothespin and veneer products industry

All categories of products manufactured by our industry are afflicted by the progressive Kennedy round duty reductions and the consequent increases in imports. Projection of the trends already established point to the inevitable destruction of the industry.

A. Clothespins

The wooden clothespin industry has suffered much from import competition over a long period of years, and its problems are not unknown to this committee. I shall not, for that reason, burden the record with repeating the early history of these problems. That history was ably detailed to the committee during its 1968 tariff and trade hearings and is contained in that record.

Two significant facts must be noted, however.

First—The U.S. Tariff Commission found in 1957 that restoration of the full duty rate of 20 cents per gross on spring clothespins would not be adequate, even at the prices then prevailing, to protect the domestic industry from continuing serious injury and recommended the application of a quota. The President chose to disregard the Commission's quota recommendation and applied instead the full duty rate, in consequence of which the courts eventually struck down all relief as an unconstitutional exercise of legislative powers by the Executive.

The significance here is that the 20-cent rate did not have the effect of significantly reducing import levels, but only tended to inhibit the level of imports of spring clothespins to about the same level (28 to 31 percent of domestic consumption) which the Tariff Commission had found to be causing the industry serious injury during the period up to 1957. Subsequent events have proved the Tariff Commission to have been correct in its judgment that the 20-cent rate was inadequate to protect the industry. (See Statistical Appendix A.)

(Appendix A referred to follows:)

APPENDIX A.—SPRING AND STANDARD CLOTHESPINS, SUMMARY OF U.S. SHIPMENTS, IMPORTS, AND APPARENT CONSUMPTION, 1947-69
 [Unit equals thousands of gross]

Year	Domestic shipments			Imports		Domestic consumption			Percent- age standard	To shipments			Percentage imports			Total	
	Spring	Standard	Total	Spring	Standard	Total	Spring	Standard		Total	Spring	Standard	Total	Spring	Standard		Total
1947-56	3,158	5,384	8,542	1,093	18	1,101	4,241	5,402	9,643	55	34.0	(1)	13	25.0	(1)	11	
1957-61	4,039	3,642	7,681	1,970	231	2,201	6,009	3,874	9,883	39	48.0	6.3	29	33.0	6.0	22	
1962	4,559	3,146	7,705	2,328	331	2,659	7,087	3,477	10,564	33	55.0	9.8	37	36.0	9.5	27	
1963	4,687	2,829	7,516	1,897	279	2,176	6,584	3,108	9,692	32	40.0	10.5	29	29.0	9.0	27	
1964	4,970	2,895	7,865	2,019	365	2,384	6,989	3,260	10,249	32	40.6	12.6	30	29.0	11.2	23	
1965	5,629	2,649	8,278	2,234	235	2,469	7,263	2,884	10,147	28	44.0	8.9	32	31.0	8.1	24	
1966	5,081	2,481	7,562	2,016	187	2,203	7,023	2,651	9,674	27	40.0	7.5	29	28.0	7.0	23	
1967	4,942	2,182	7,124	2,139	239	2,398	7,102	2,421	9,522	25	44.0	10.9	34	30.0	9.9	25	
1968	4,753	1,998	6,751	2,411	227	2,638	7,164	2,224	9,388	31	50.7	19.7	39	33.7	10.2	28	
1969	4,268	1,631	5,899	2,408	321	2,729	6,676	1,951	8,627	29	56.4	19.7	46	36.1	14.5	32	

¹ Less than 1.

Source: U.S. Tariff Commission; Bureau of the Census.

Mr. SOLTER. The second significant fact is that, as was wholly predictable, as duty rates go down pursuant to the Kennedy round protocol, imports' relative share of domestic consumption is going up.

CORRELATION OF DUTY REDUCTION WITH INCREASED IMPORTS OF SPRING CLOTHESPINS

Year	Duty rate (cents per gross)	Percent imports of domestic consumption
Average, 1963-67	20	29.0
1967	20	30.0
1968	18	33.7
1969	16	36.1

No special gift of prophecy is needed to see that projection of the trend thus evidenced will lead in 1972, when the duty will have reached 10 cents per gross, to an import share of domestic consumption equal to some 46 percent. But that prophecy assumes a linear projection, which probably understates the damage because it omits from the equation the factor that, while the annual duty reductions accord the foreign competitors an increasing, cumulative cost advantage, the domestic industry is concurrently experiencing, and will continue to experience, rapidly rising costs in the face of inflationary pressures in the United States. This widening cost-disparity factor, applied to the essentially static U.S. market for wooden clothespins, makes it highly probable that the volume of imported clothespins will be far in excess of 50 percent of domestic consumption, particularly since one or more present producers may be driven out of production by that time.

B. Wooden Toothpicks

The trend of wooden toothpick imports is much the same as that of spring clothespins—a rapid rise in the share of imports in domestic consumption concurrently with the progressive Kennedy round reductions. The available data are set out in statistical Appendix B.

(Appendix B referred to follows:)

APPENDIX B.—U.S. SHIPMENTS, IMPORTS, AND DOMESTIC CONSUMPTIONS OF WOODEN TOOTHPICKS

[In millions of dollars]

Year	U.S. shipments	Imports	Domestic consumption	Percent imports of domestic consumption
1964	4.2	0.237	4.437	5.4
1965	4.3	.440	4.740	9.3
1966	4.6	1.010	5.610	18.0
1967	4.8	.436	5.236	8.4
1968	¹ 4.8	.635	5.435	11.7
1969	¹ 4.8	1.200	6.000	20.0

¹ Estimated at 1967 rate.

Source: Summaries of Tariff Information, TC Pub. 269, 1968, pp. 93 ff. Bureau of the Census.

Mr. SOLTER. The full rate of 25 per cent ad valorem applicable to toothpicks had already been reduced to 12.5 per cent by prior trade agreement concessions before the Kennedy round negotiations, and in consequence of the Kennedy round will have fallen to a negligible 6 per cent by 1972.

That the Kennedy round reductions are inducing increased imports is obvious:

CORRELATION OF DUTY REDUCTIONS WITH INCREASED IMPORTS OF WOODEN TOOTHPICKS

Year	Ad valorem duty rate (percent)	Percent imports of domestic consumption
Average, 1964 to 1967.....	12.5	10.2
1967.....	12.5	8.4
1968.....	11.0	11.7
1969.....	10.0	20.0

¹ Estimated. See statistical app. B.

Projection of the curve thus constructed would indicate the 1970 import volume at some 30 per cent of domestic consumption. Further projection produces astronomic levels.

C. Other small woodenware products

The industry here concerned produces, in addition to clothespins and toothpicks, a variety of articles from flat veneer such as ice cream sticks, coffee stirrers, ice cream spoons, cocktail spears, paint paddles, and so forth.

The identification and matching of categories of such articles between domestic production and imports since the year 1967 is beyond the resources of the Clothespin and Veneer Products Association. However, valid comparative data compiled by the U.S. Tariff Commission through 1967 do exist and are set out here:

SHIPMENTS, IMPORTS, AND DOMESTIC CONSUMPTION OF SMALL WOODENWARE PRODUCTS, 1964-69

[In millions of dollars]

Year	U.S. shipments	Imports	Domestic consumption	Percent imports of domestic consumption
1964.....	4.7	0.441	5.141	8.6
1965.....	6.0	.633	6.633	9.6
1966.....	5.9	.665	6.565	10.0
1967.....	7.1	.765	7.865	1.0
1968.....	(1)	.866	.....	.....
1969.....	(1)	1.100	.....	.....

¹ Not available.

Source: Summaries of Trade and Tariff Information, TC publication 269, 1968, p. 93; and Bureau of Census.

While the unavailability of comparable domestic production data for 1968 and 1969 prevents direct comparison, it appears nevertheless probable that the same correlation between the Kennedy round duty reductions and the increase in imports is operative with respect to other small woodenware articles as well:

Year	Ad valorem duty rate (percent)	Import level
Average, 1964-67.....	16 $\frac{2}{3}$	0.626
1967.....	16 $\frac{2}{3}$	.765
1968.....	15	.866
1969.....	13	1.100

It is probable that domestic shipments also showed some increase during the 2 years 1968 and 1969, but it is also probable that imports increased at a more rapid rate. With the ultimate Kennedy round concession rate dropping to 8 percent ad valorem by 1972, there appears no reason to believe that the growing cost disparity thus assured will not induce an injurious flood of imports.

D. Increasing imports of clothespins and flat veneer products directly displace equivalent domestic production

For a variety of reasons, increased imports displace an equivalent quantity of domestic production.

The market for wooden clothespins is basically inelastic and static. For example:

Average annual U.S. consumption of spring and standard wooden clothespins (millions of gross)

Period:	Quantity
1947-56 -----	9. 643
1957-61 -----	9. 874
1962-69 -----	9. 646

The U.S. consumption of wooden toothpicks and small woodenware displays a slow growth, probably reflecting the demand of increasing population and higher disposable income. However, it is apparent that the increases in imports are preventing the domestic industry from sharing in that growth.

Because of the simplicity of these products, there is virtually no room for superior American manufacturing technology to create any further relative cost advantages. Foreign technology is generally equal to that of the domestic industry. Clothespins are uniform products with few quality differences between domestic production and imports and virtually none recognizable by end users. Likewise imported toothpicks and other small woodenware products closely resemble the domestic products as to appearance, size, shape, finish, and quality.

Buyers are thus responsive to very small price differences, and generally one seller gains business only through a corresponding loss of business by another seller. In competition among domestic producers, this characteristic is endurable because all have roughly comparable cost patterns. However, direct competition between foreign producers and domestic producers is impossible. Domestic producers must pay higher wages, workmen's compensation, social security, and unemployment compensation. Domestic producers must also maintain higher levels of sanitation and working conditions than are required of foreign competitors, and must cope as well with problems of environmental pollution. Thus, low cost foreign labor and cheaper materials permit the foreign producers significant inherent cost advantages over the domestic producers, quite apart from the effect of the progressive reductions in the U.S. import duty.

All these factors combine to make the domestic industry hypersensitive to import competition. Absent adequate tariff protection, the foreign producers can and probably will capture the entire American market within the next few years.

II

Effects of excessive import competition on the domestic industry and on the communities in which the industry is an important economic factor

The standard answer of the free trade advocate to the problem of a domestic industry threatened with extinction by excessive import competition is "so be it." The classic doctrine of international comparative advantage holds that when, in the free flow of international trade, an industry within one national unit can no longer compete with imports from lower cost producers, then economic efficiency decrees that national industry shall die. This antiquated rationale underlies the concept of adjustment assistance for firms and workers which was introduced into the Trade Expansion Act of 1962 and is presently in prominent view before the committee in consequence of the administration's recommendations.

What the concept of adjustment assistance and its underlying doctrine ignores, however, is the human factor; it treats labor in the abstract as a mobile factor of production, and it assumes unrealistically that management has handily available alternative uses to which capital, land, and plant can be applied with profit.

A brief consideration of the effects, in human terms, of excessive competition from imports of spring clothespins and flat veneer articles on the firms and communities involved in the industry points up the unreality of those notions.

The producers of clothespins, and most producers of toothpicks and small woodenware products, are concentrated in the state of Maine, with the exception of one producer in Vermont. This industry concentration has the effect of substantially increasing the impact of adverse economic experience suffered by domestic producers from import competition. The State of Maine can ill afford such concentrated impact and the loss of these manufacturers.

Maine is an economically depressed area. The Bureau of Labor Statistics ranked Maine 44th nationally for the period 1961-67 in average hourly earnings for production workers in manufacturing, 45th in 1968, and 47th in December of 1969 and January of 1970. In average hourly earnings for production workers in manufacturing, Maine was \$27 below the national average. In the same year, the average weekly wage of a production worker in the Maine lumber and wood processing industries was \$8.18 below the national average.

The weekly wage paid by the clothespin and veneer product manufacturer in Maine and Vermont averaged \$91.20 per week during February and March 1970. This is \$7.94 less than the 1969 national average weekly wage; \$8.20 per week less than the January 1970, national average; and \$10.51 per week less than the February 1970, national average for production workers in the miscellaneous wood products industries.

Protection is not here sought for a high-income industry. Even holding labor cost to wage scales substantially below the national average, the clothespin and veneer product industry cannot compete with foreign producers.

According to the 1960 Census of Population, volume I, the State of Maine ranked 43d in the Nation in amount of population increase and 41st in percent of population increase for the period 1950-1960. The State has thus proportionately more people aged 65 and over than the rest of the United States and proportionately fewer persons aged 25 to 49. The proportion of adults who have completed one or more years of college is lower than the U.S. average.

It is obvious from these data that Maine is a severely depressed State, with the consequent exodus of its young people to seek opportunity elsewhere. The continued existence of many of the small towns of Maine depends upon the continued operation of the clothespin and veneer product factories. In each town, other economic activity, such as the town merchants, the service trades, and truckers are dependent upon the continued operation of these plants. The wood as the starting material for these products is furnished largely by farmers in the vicinity of the plants, for whom the sale of wood cut from small woodlots constitutes a significant part of their cash income.

The machinery and equipment in these plants is designed solely for the production of clothespin and small woodenware products and could not be used to manufacture other products. If a plant is closed, its machinery would be junked, leaving an empty building which has as its only industrial advantage proximity to wood supplies. Were the plant to attempt to produce other products using other materials, the materials would have to be transported from other areas, and the firm would thus lose any competitive advantage it might have enjoyed from proximity to its raw material supply.

The average age of all employees of the six Maine manufacturers is 44 years. The average education of the employees is high school or below. Some 56 percent of the employees own their own homes. The market is poor for the sale of homes in most of these small towns because of the depressed economic situation of Maine.

Appendix C points up the relative importance of the clothespin and veneer product factories in 12 Maine towns. Referring to this table, it will be seen, for example, that employment in this industry in the town of Mattawaumkeg amounts to 44.5 percent of the male population over 14 years of age; to 38 percent in Solon, 36.5 percent in West Paris, 59 percent in Strong, 31 percent in Guilford, and so on. It is also important to note from this table that many of the other manufacturing establishments in these towns are engaged in textile and shoe production, which products are suffering similar depression from import competition.

(Appendix C follows:)

APPENDIX C.—COMPARATIVE EMPLOYMENT AT LOCATIONS OF CLOTHESPIN AND FLAT VENEER PRODUCT MANUFACTURE

Town and county	Male and female population over the age of 14 ¹		Number employed in manufacture of clothespins and veneer products ²	Percent of male population over 14 engaged in clothespin and veneer product manufacture	Other industries
	Male	Female			
Guilford, Piscataquis.....	641	580	1,321	31.4	Textiles, golf tees, and wooden cigar tip manufacturing
Mattawaumkeag, Penobscot.....	309	311	620	44.5	Pulp and paper.
Oakland, Kennebec.....	1,017	1,382	2,199	3.7	{ Paper and pulp mills, food processing, textile and garment manufacturing.
Waterville, Kennebec.....	6,313	7,236	13,549	38.0	No other industry.
Solon, Somerset.....	2,293	2,639	5,022	29.2	Shoes.
Skowhegan, Somerset.....	2,479	2,687	5,466	59.5	Shoes, tanning, and paper.
Wilton, Franklin.....	1,114	1,201	2,315	29.0	Do.
East Wilton, Franklin.....	(^c)	(^c)	3,700	37.7	Lumber—shingles, millwork.
Strong, Franklin.....	358	343	701	36.5	Millwork, feldspar grinding mill.
Stratton, Franklin.....	(^c)	(^c)	650	26.5	Paper mill, woodenware, lumber.
West Paris, Oxford.....	384	389	773		
West Peru, Oxford.....	(^c)	(^c)	3,500		

¹ 1960 census.² As of March 1970.³ Estimate.⁴ Estimate, Peru/Dixfield.

Mr. SOLTER. As applied to workers, adjustment assistance amounts essentially to three R's—retraining, relocation, or relief.

As to retraining, within the context of the depressed Maine economy, the question becomes retraining for what? Other industry is equally or more depressed, much of it from import competition. Moreover, given the relatively high percentile of older workers and the relatively low educational levels, there is doubt whether retraining for complex manufacturing, such as electronics assembly, would be feasible.

As to relocation, again the high median age of displaced workers, the large number which own their own homes, which in many cases, represent a major part of life savings, and the impracticality of selling homes in a depressed market argues pointedly against the theoretic concept of labor mobility inherent in the notion of relocation. Moreover, with relocation would come the necessity of retraining with the difficulties noted above.

The strong probability is that adjustment assistance to workers would end in the third R—relief.

With regard to workability of adjustment assistance to firms, to the owners and management of the affected companies, there are equal practical obstacles. Capital assets exist largely in the form of land, buildings, machinery, and unsold inventory, which may or may not be capable of being converted to alternative uses. Under the depressed economic conditions of these regions of Maine, few if any reasonable alternative employments are available for the producers' capital assets. If business opportunity is not present, low-interest loans in the nature of adjustment assistance avail naught. Similarly income tax advantages—loss carryovers and so forth—have no meaning when there is no income.

Accordingly, the increase in imports of clothespin and flat veneer articles induced by the Kennedy round reductions threaten the most serious of consequences to the industry producing those articles; the industry is concentrated in Maine where the shutdown of clothespin and veneer product factories would add intolerably to the existing economic distress; because of age, skill levels, absence of viable economic alternatives, and other human factors, adjustment assistance to workers and firms afford no practical solution to the problem.

III

The solution is to amend the escape clause to make of it a workable remedial device for small industry beset by problems of excessive import competition

The basic U.S. policy has been, and should continue to be, to stimulate a long term expansion of world trade by the gradual dismantling, on a reciprocal basis, of tariff and other trade barriers. Implicit in the concept, however, is "escape" from harmful, dislocations of particular industries by rising imports. Since 1962, no effective means of escape has been available to American industry, particularly small industry.

The GATT Escape Clause was first implemented by legislation in section 7 of the Trade Agreements Extension Act of 1951, which act predicated eligibility for relief on an increase in imports resulting in whole or in part from a trade agreement concession and that such in-

creased imports had contributed substantially toward causing or threatening serious injury.

During the 11 years of section 7, the Tariff Commission instituted 135 investigations at the behest of American industries and completed 113. A Commission majority recommended relief in the form of import restrictions in 33 cases and were equally divided in eight. The President proclaimed restrictions in 15 instances.

The escape clause was radically restructured in the Trade Expansion Act of 1962, and especially the criteria of eligibility for tariff adjustment, to accord with the innovation first introduced at that time of adjustment assistance to firms and workers adversely affected by increased import competition. Under the 1962 escape clause, no industry has been accorded tariff relief.

The unworkability of the present escape clause derives from the virtually insurmountable obstacles posed by the "major part" and "major factor" tests. In order for the Tariff Commission to find an industry eligible for "tariff adjustment"—i.e. withdrawal or suspension of concession duty rates, limitation of imports by quota, or negotiation of orderly marketing agreements, or certification of the firms and workers constituting the industry as eligible for adjustment assistance—it must be found that a trade agreement concession was the major cause of an increase in imports, and that the increased imports were the major factor in causing, or threatening to cause, serious injury.

In practice, the Tariff Commission has by and large concentrated on causes of increased imports other than trade agreement concessions and causes of economic distress in the petitioning industries other than increased imports. While no consistent guideline as to the meaning of major causation is discernible from the Commission's report, a reluctance to attribute fault to imports is clearly evident.

The amendments proposed by H.R. 16920 would restore a realistic possibility of "escape" to the escape clause.

Essentially, these amendments phrased in highly technical terms would accomplish three principal objectives: (1) the criteria of eligibility for tariff adjustment relief to an industry would be made less rigorous; (2) the unacceptably long period accorded to the Tariff Commission and the President between the filing of a petition and a final decision would be shortened, and (3) the definition of industry producing like or directly competitive articles would be narrowed.

The proposed amendments would eliminate as a prerequisite to relief any demonstration of direct causality between increased imports and a prior trade agreement concession. Since in a great many instances the Tariff Commission has been unable to pinpoint direct causation between a prior duty reduction and a subsequent increase in imports and has denied relief on that narrow basis, the elimination of this criterion is desirable. The new approach assumes, quite correctly, that any increase in imports of a magnitude to cause serious injury to a domestic industry must have been caused at least in part by a prior trade agreement concession or by the effects of other obligations incurred by the United States under the GATT.

The second criterial change would be to reduce the quantum of causation between increased imports and serious injury to the domestic industry from a "major factor in causing" to a "substantial cause." We

hope that the legislative history will make it clear that the term "substantial" should be interpreted to mean not greater than all other causes combined nor greater than any other single cause.

Section 202(c) (2) of H.R. 16920 would eliminate subsection 351(a) (4) of the Trade Expansion Act completely, as an inequitable protraction of the time in which the President must act following a Tariff Commission recommendation for tariff adjustment.

Under section 301(f) (2), the Tariff Commission must complete its investigation and report to the President within 6 months from the date of filing of the petition. In practice, the Commission takes the full 6 months.

After receipt of the Commission's report and recommendation, the President has under section 351(a) (2) 60 days within which to act.

However, section 351(a) (4) permits the President as a matter of discretion within the 60-day period to request additional information from the Tariff Commission, which body has then a further 120 days to supply the requested information, which the President again has a further 60 days within which to take final action.

This succession of time periods permits the postponement of final action up to 14 months from the date of filing of the original petition. It is felt that 6 months for investigation and report by the Tariff Commission plus an additional 2 months for consideration and final action by the President affords adequate time to serve the purpose of the statute. Prolongation of final action by another 6 months can only be inequitable to industries which merit escape clause protection.

However, the remedial intent of these amendments would be illusory if in weighing "serious injury," the impact of increased imports is dissipated across a broad definition of domestic industry.

Section 202(e) of H.R. 16920 would add a new subsection (7) to section 405 of the Trade Expansion Act to make it clear when an article is produced in a distinct part or section of a subdivision of an "establishment," even in a multiestablishment firm, that part or section will be considered an "appropriate subdivision" within the meaning of the act for measuring injurious impact.

In an age of increasing conglomerate integration, it is necessary to give more attention to the "product line," and not to dilute the injurious impact of the imported article by spreading it over the non-related experience of the other divisions of the same business entity. The problem of the overly broad definition of industry was best described by Mr. Glenn W. Sutton, present Chairman of the Tariff Commission, as quoted by the Daily News Record (November 5, 1969, p. 23)—

"It is almost impossible to find injury under this law as it pertains to an industry . . . the broader you define an industry, the less apt you are to find injury. As an example, nails may be a part of the steel industry, and if only nails were involved there would be a better chance of finding injury than if nails were part of the whole industry."

Turning briefly to H.R. 14870, the administration trade bill, we comment that the changes in criteria of eligibility for tariff adjustment relief are inadequate to provide any meaningful remedy for small industry.

While the administration trade bill would eliminate the quantum of

causation test between a prior trade agreement concession and increased imports, it would still retain a fairly stiff test of causation of serious injury in the case of industries seeking tariff adjustment relief—that increased imports have been the “primary” cause of the injury.

The primary cause injury test evolved from a study by an industry commission and the subsequent report of the special representative for trade negotiations, when that position was held by Ambassador William Roth. The “primary” test is intended to relieve only slightly the unworkability of the escape clause. The same study recommended, and the administration trade bill also proposes, the less difficult “substantial” test for eligibility of workers and firms for adjustment assistance.

Given the impracticality of adjustment assistance to workers and firms in so many instances, we see no justifiable reason for establishing tougher criteria for tariff adjustment than for adjustment assistance. In the final analysis, the President has the discretionary option to grant one or the other form of relief, which discretion provides adequately for dealing with retaliation situations.

For the foregoing reasons, we hope that the committee will favorably consider and report out H.R. 16920 in its present form.

Thank you, gentlemen.

Mr. VANIK. Thank you, Mr. Solter, for a very enlightening statement.

Mr. Gibbons?

Mr. GIBBONS. I want to commend the witness for the very thoughtful and well-prepared statement. I have talked this over with Congressman Bill Hathaway, who represents that area. He has discussed with me not only this particular problem but also the problem of the whole economic background of Maine.

Mr. SOLTER. It is quite serious.

Mr. GIBBONS. He went out of his way to discuss that industry and problem with me and I would just like to commend the witness again for his fine statement.

Mr. VANIK. Mr. Betts.

Mr. BETTS. I think it is too bad the press is not here and more members to hear the story from a little industry that I think is entitled to as much help as some of the big ones. Even though the press and all of the committee is not here, I am sure those of us who have listened to you will try to convey your message on to the committee when we go into executive session. I appreciate your comments and your information.

Mr. SOLTER. I am delighted you should comment that way, Mr. Betts, because we do feel in addition to being our own particular industry we are a case study with problems and solutions which are perhaps applicable to many other similar small industries.

Mr. VANIK. Thank you very much. We certainly appreciate your testimony. Like the experience of other days, some of the best testimony comes at the end of the session.

The committee will be adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 6:05 p.m., the committee was adjourned, to reconvene at 10 a.m. Wednesday, June 10, 1970.)